AMERICAN BANKERS Association JOURNAL

DECEMBER, 1929

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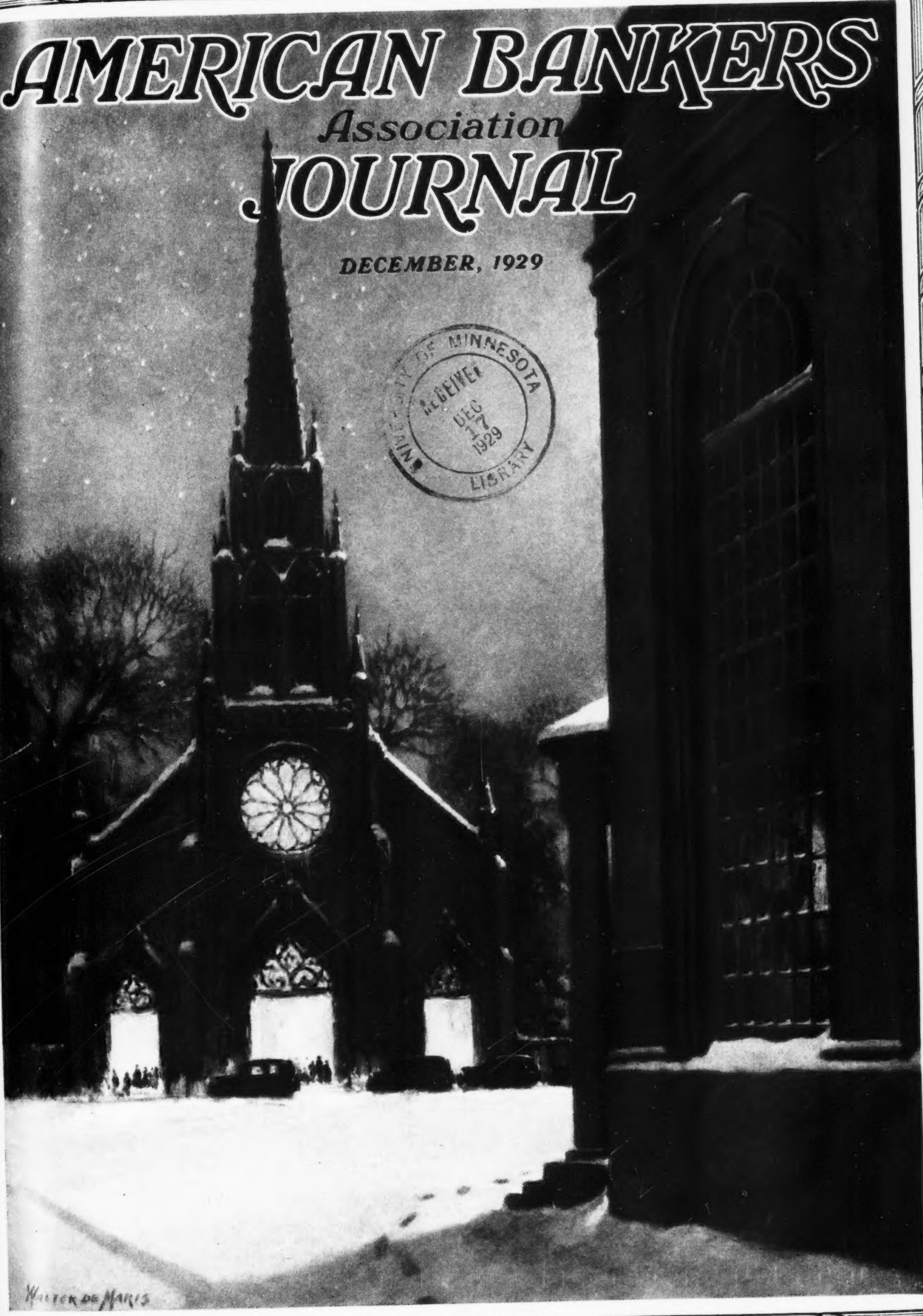

Peace and Prosperity

Cover Story on Page V

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PEACE AND PROSPERITY

[THE JOURNAL COVER ILLUSTRATION: FROM A PAINTING BY WALTER DE MARIS]

A CHURCH and a bank! Is there any real connection between the two or has the painter just used the two to give an appropriate Christmas flavor to our December magazine?

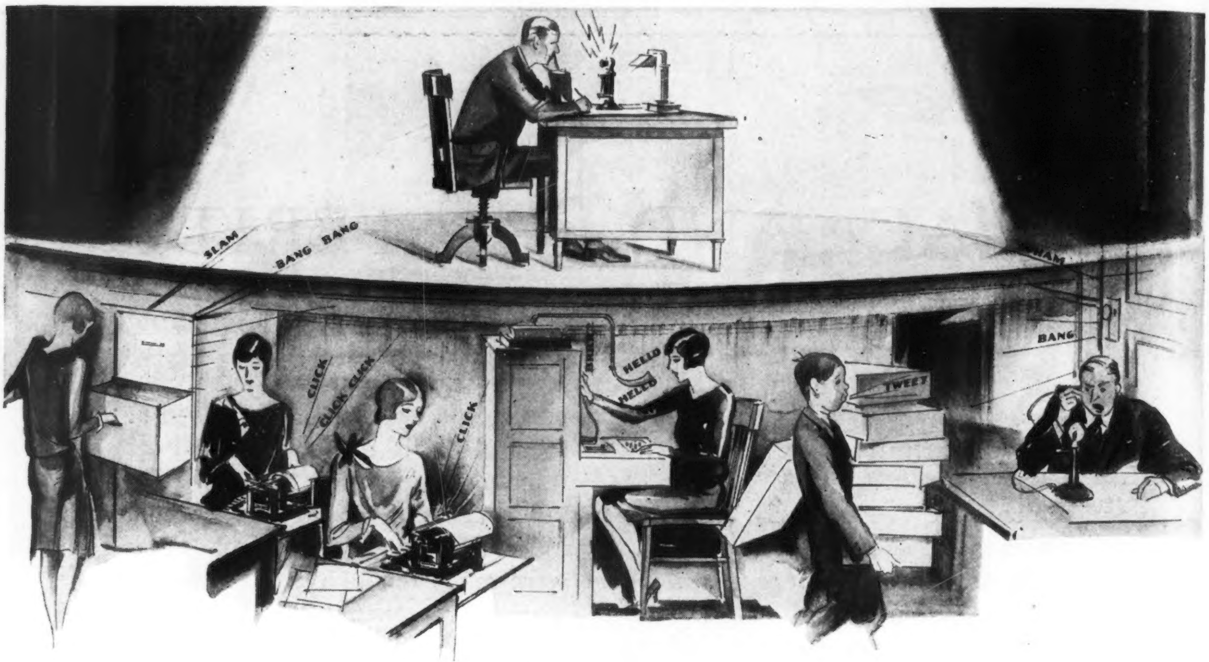
Banks do not provide churches nor equip men to preach in them, so there is no encouragement in that direction. Churches—as customers are counted—do not have much need for banks, but—here is the connection—it is the church that makes both the bank and credit. The bed rock foundation of credit, the bank's principal commodity is supplied by the teachings of the church.

The first foundation, the real foundation of the banker's preparation for his position in the profession was obtained not in the bank, but in his religious training and it is from the same source that come those qualities of dependability which make the average bank customer.

From day to day, all over the nation, there is discussion of bank reserves—considerations of vital importance to every institution—but after all it is the church, and its teachings, the church and its silent influence on the people as a whole that is the best reserve. If all of that were taken out of our lives would there be, or could there be, any credit structure notwithstanding all the accumulated knowledge of reserves?

RISING grandly beyond the mass of technicalities, above and beyond the interminable volumes of common, book and statute law relating to finances, the church is the great bulwark of the business.

In the picture, therefore, there is a deeper and a better meaning than the mere accidental proximity of two edifices. They are community cooperators, with teachings of the church actually constituting a very real and a very indispensable reserve system for all of Christendom, as well as for that part of it which has to do with the business of banking.



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FOR LESS NOISE—BETTER HEARING

This Month's Journal *and* Your Own Bank

YEAR'S end brings a realization that the business and banking of the country has passed through an eventful period in its history. Banking especially has had an eventful year—what might be called a year of crystallization. Many things that have in a sense been in the making for some time have during the past twelve months reached the point from which new ideas and new means of progress open up.

This month's JOURNAL carries this forward look. It covers a wide field of things as they have been, interpreted in terms of things as they are to be. Plans for the new year can never wait the coming of another year and it is the understanding of forces that govern events which makes possible that preparedness so often mistaken for opportunism.

ACCUSTOMED to a continually rising market for securities for so long a time, the country as a whole is pondering the problem of business with a stock market substantially deflated. Two outstanding authorities discuss the credit situation of the country under the new conditions, and both are equally cheerful in their outlook. "Credit Inflation and the Stock Market," by George E. Roberts, vice-president of the National City Bank of New York, explains what happened to security values and why it is accurate to say that fundamentally the nation is sound. Mr. Roberts looks upon the United States from within. Gustav Cassel, the Swedish economist, in "Safeguards of Prosperity," gives the outside view of the general situation as a result of the collapse in the stock market and expresses his confidence in the outlook for the future.

His appraisal of the policy of the Federal Reserve System during the long upward swing of the stock market and the value of that policy to the world at large is of especial importance.

MANY people have been asking how business in other countries would react to the change in the American security markets. Grosvenor Jones, chief of the Finance and Investment Division of the Department of Commerce, answers this question in "Europe After the Stock Market." His analysis of conditions abroad, based mainly upon recent first-hand observations, is highly encouraging. He finds a surprising state of prosperity in Europe, which is contrary to a rather widespread impression that has grown up in the United States. And it must ever be remembered that world improvement benefits America.

ANOTHER very general reaction to the new order in the stock market was the belief that bonds would immediately benefit by the lower price levels of stocks. Why this benefit to bonds did not materialize to the extent that had been expected is explained by Max Winkler in "Anomalies in the Bond Market." However, he is convinced that bonds are destined to come into their own again and while there may be no immediate appreciation in the values of long-term issues such a development is in sight.

MR. JOHN J. RASKOB last summer attracted considerable attention with a proposal whereby anyone could become rich. No little interest in his plan was manifested by bankers in view of the fact that Mr. Raskob, in effect, suggested the investment trust as an

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Investment Trust Organization and Management

By Leland Rex Robinson
President, Second International Securities Corporation

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The Bank and Its Directors

By Craig B. Hazlewood

Vice President and Director, First National Bank of Chicago; President American Bankers Association, 1928-1929.

A PRACTICAL summary of the knowledge bank directors should have and the methods they should use to make themselves a constructive force in upbuilding and managing their institutions. Every bank officer, as well as every bank director, can benefit by its presentation of the fundamentals of profitable bank management, as exemplified in the practice of successful banks of all sizes all over the country. In addition to a wealth of banking experience, it presents comparative statistics and tabulations which furnish definite standards of performance. 250 pages. $3.50.

Bank Sales Management

By Mahlon D. Miller
Manager, New Business Department, Lake Shore Trust and Savings Bank, Chicago.

OFFERS explicit counsel and practical suggestions on how to increase your bank's business profitably. It gives you broad, well rounded plans of proved value for obtaining new business for each department, and for retaining and developing accounts already on the books. It goes into the analysis not only of the field of prospects but also of the prospects themselves to make sure the business solicited is desirable. Incorporates the experience of successful banks all over the country. 311 pages. $5.00.

Foreign Securities

By John T. Madden and Marcus Nadler
Respectively Dean of the School of Commerce, Accounts, and Finance, and Assistant Professor of Finance, New York University.

AN analysis of the financial, legal, and political factors of foreign public and mortgage bank bonds. Offers detailed specific information never before available in American investment banking literature. This information could hardly be more authoritative. Only through the special facilities of the Institute of International Finance, of which the authors are Director and Research Director, could material of the calibre presented have been obtained. In addition, every chapter of the book has been passed upon by bankers experienced in the foreign field. 452 pages. $6.00.

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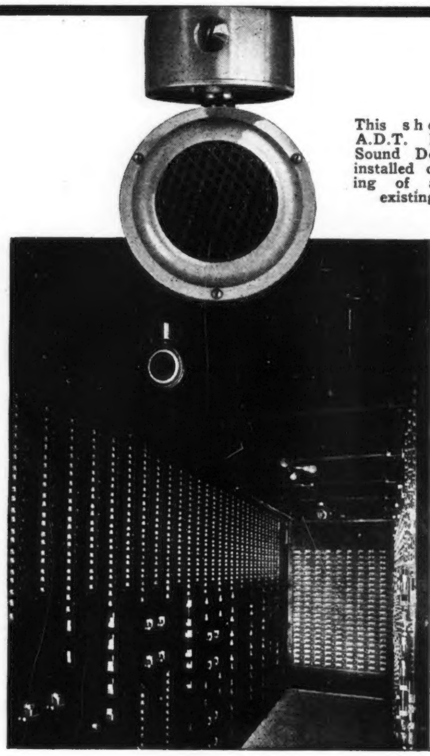

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alternative to banks as the custodian of savings. This month's JOURNAL offers a critical analysis of Mr. Raskob's plan by H. L. Jome, professor of economics of Dennison University, whose article "Wealth or Money" tests the plan by the application of pure reason and without resort to recent developments in the seecurity markets as a basis for passing judgment.

SIZE has never been a criterion of perfection nor of efficiency, nevertheless it is safe to say that part of the urge to merge among banks can be attributed to evidences of bigger units growing up on all sides. Yet the smaller institution can hold its own in this age of consolidation and combination as is shown by H. N. Stronck, of Chicago, in "The Small Bank's Chance." He translates the principles of better bank management now being adopted by the largest institutions in the country into the terms of banking on smaller scales.

THERE is another side to mergers that is not so often discussed and that is the broad field of difficulties that opens up when two institutions decide to combine and carry on as one without any interruption to business. "The Operating End of Bank Mergers," by Frank Loomis Beach, discusses how some of the most common troubles incident to a merger may be eliminated.

"DON'T Guess — Analyze" says Howard Haines. In his previous articles management is dramatized. In the present article he has undertaken to make it possible for the smallest banks to have as accurate and efficient a system of account analysis as the greatest institutions in the country with their large, limitless facilities. He submits a chart with which it is possible to determine at a glance the profit or loss upon an individual account. And the chart is as easily understood by a customer as by the banker.

EVERY year paper eligible for rediscount by Federal reserve banks becomes scarcer. Milan V. Ayres in "Installment Credit in Times of Stress" makes a specific suggestion of increasing the supply of paper eligible for rediscount by the inclusion of the paper of finance companies in this classification. At the same time he discusses on a factual basis what heretofore has been thought to be a subject possible only of conjecture, and that is how instalment credit stands up when the stock market is going down.

SECRETARY of the Treasury Mellon has made known his views on branch and group banking. He did so in his annual report which went to Congress on Dec. 4. The JOURNAL is reprinting an extract from the report which contains his expressions on the subject. They are important in that they may be taken to reflect the position that the Administration will assume when the matter comes before Congress.

"ON the Tip of a Match" describes what is called the biggest investment trust in the world and indicates why there is much more than a passing American interest in the Swedish match monopoly.

The author for very good reasons could not sign the article. At the same time he refused to make use of a nom de plume for reasons which are interesting and, perhaps, prophetic.

"My objection to 'ghost' writing," he said, "is based not so much on a sense of egotism (from which I am not entirely free), but rather on the fact that there is too much of it in some publications; if we go on at the present rate we shall soon have a situation where public opinion will be molded by ghosts."

"PITFALLS in Hotel Promotion," by W. I. Hamilton, takes up a subject that sooner or later comes before nearly every business man and banker. Every so often a community is seized with the notion that it should build a hotel, either a bigger one or a more pretentious one than it already has. This article tells very simply the basic factors that determine profit or loss in the hotel business and why community zeal for new hostelries must always be tempered with practical considerations.

PROMINENT among the new problems which are coming to the fore is the question of more complete protection for depositors. For years the double liability of bank stockholders has been regarded as the bulwark of safety, but new forces in banking, notably the increase in corporate stockholders, has raised a challenge to the value of the customary double liability.

Florida has by statute attempted to find a substitute for double liability. Harwood B. Dolbeare, associate professor of finance at the University of Florida, in "Liability Insurance for Depositors" explains the method being tried out. No attempt is made to avoid the imperfections in the law, which provides for the setting up of a special reserve fund, but analysis of the statute discloses that there is a very definite value in the idea. The subject is one that is destined to be given wide attention later on.

"AS a Banker Sees It," from an address by Carl D. Ganz, cashier of the Farmers and Mechanics Bank, Alvo, Neb., is a treatment of the subject of better banking that is different.

Only the man who plans to steal knows how heavily he should be bonded

. . . AND he won't tell. If you're still depending on old style dishonesty protection, you have to guess not only which employees are risks—but the extent of the damage each may do, and the bond each should carry. No one short of a mindreader can give you an infallibly correct answer.

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AMERICAN BANKERS
ASSOCIATION JOURNAL

Wealth or Money?

By HIRAM L. JOME
Professor of Economics, Dennison University

Recent Proposals for Making Everyone Rich Through Long Continued Investment in Stocks Considered Culmination of Age Old Confusion Between Wealth and Money Which Overlooks the Distinction Between Purchasing Power and Riches.

Short Cuts to Riches

MR. JOHN J. RASKOB has advocated a plan for making everybody rich by the application of the investment trust idea to small but systematic monthly savings. This article undertakes to show the fallacy of the plan and its kinship to the belief that has persisted for centuries that the impossible is possible and a short cut to the elimination of poverty and the satisfaction of all human wants can be devised.

"On Monday I bought share on share;
On Tuesday I was a millionaire;
On Wednesday took a grand abode;
On Thursday in my carriage rode;
On Friday drove to the Opera-ball;
On Saturday came to the Paupers' hall."

THIS ditty, originally sung on the streets of Paris about 1720 after the bursting of John Law's Mississippi Bubble, is representative of the popular sentiment during any speculative orgy. Enthusiasm and unbridled optimism, accompanied by the deriding of those who urge sanity; then the inevitable disillusionment and sad return to normalcy; this cycle was as characteristic of the time of John Law as it is two hundred years later.

One of the fallacies underlying many a speculative mania as well as political panacea is the confusion of wealth and money.

John Law, a Scotch gambler and adventurer, with a stroke of financial genius, argued that the secret of prosperity lies in the issuance of paper money. The amount of wealth is dependent upon commerce, and commerce in turn, is aided by an abundance of money.

Notes for Coin

A BANK, so ran his reasoning, could multiply its capital tenfold by the judicious issue of its own notes or promises to pay. Why could not the government establish a huge bank to issue circulating notes based upon its land, thus multiplying the wealth of the country? Holland with relatively meagre natural resources, was one of the world's wealthiest countries because she had put into circulation a great amount of money. Other nations might do likewise.

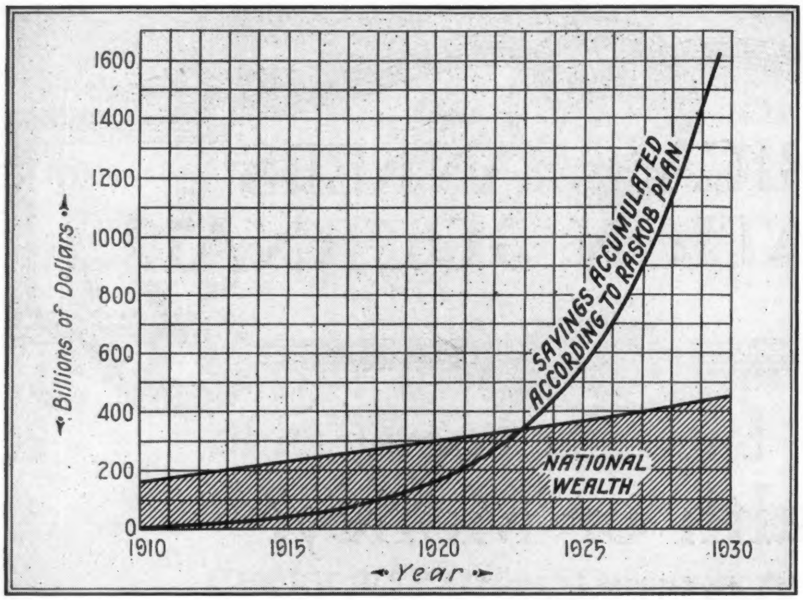
An apostle of this idea, Law went from country to country. Finally he received a friendly hearing from the Duke of Orleans, the Regent of France, who had assumed control after the death of Louis XIV. French finances were in chaos. The Regent did not receive sufficient ready money from the inefficient tax system to meet current expenses, to say nothing about paying the interest and principal on the public debt. Harassed by financial difficulties, he lent a sympathetic ear to the plan of John Law.

Law was authorized in 1716 to establish a bank which had the power to issue notes based on the public lands. With a capital of 6,000,000 livres he floated nearly tenfold that amount of notes. A later step was the formation of a company, usually called the Mississippi Company, which backed by the assets of trading companies, by the rich resources of Louisiana, by the public mint, and by the land and revenues of France, issued more than 2,000,000,000 shares of stock on which Law promised a dividend of 12 per cent. He issued notes at will, which everywhere were substituted for coin. The workmen who printed the bank notes could not keep up with the demand. The Company then lent the Regent sufficient money to pay off the public debt.

A Cosmic Santa Claus

JOHN LAW was hailed as a public benefactor, but when the bubble broke he was forced to flee to Italy. In fairness, it must be conceded that he was perfectly sincere. Though he recognized the errors in its application, he always remained convinced of the usefulness of his plan.

The fundamental difficulty with Law was a confusion of wealth and money. It is clearly possible for a private individ-



ual, such as a bank, to augment its capital by the issuance of bank notes. But such a process is successful only insofar as it is exclusive.

If Santa Claus presented "A" with a quantity of gold or of authentic paper money, "A" would obviously be richer than before. If, however, a cosmic Santa Claus should deposit an extra quantity of gold or money on the doorstep of every man in the country or in the world, plainly the purchasing power of each person would not be increased. A coin or a paper note represents merely, so to speak, a check drawn upon the wealth of the world. An increase in the volume of such checks with no increase in the wealth would simply mean that each check had lost part of its value in exchange or purchasing power.

John Law, like John J. Raskob 210 years later, confused individual capital with the national wealth.

Confusion in Many Forms

THE confusion between wealth and money is a monster of many forms. We find it in the wish of Midas that everything he touched might turn to yellow metal. We find it in the activities of the alchemist who attempted to convert the baser metals into gold. We find it in the joy of the old world when it learned that the newly discovered America contained an abundance of the precious metals. We find it in the doctrines of the mercantilists who believed that the best way of developing a country and of protecting it against foreign aggression is to encourage exports and discourage imports and thus to build up an adequate supply of silver and gold. We find it in the enthusiasm which post revolutionary France issued "assignates" based upon the confiscated lands of the church, the nobility, and the king. We find it in the projects of the Free Silver, Greenback, and Populist parties in planning to increase the amount of money so as to reduce poverty and to stimulate prosperity.

Again we find it at the present time in the campaigns conducted by many states and cities to "keep your money at home." We find it in the bill of the United States Senator who solved the problem as to the wherewithal to pay the soldiers' bonus by suggesting that sufficient paper money to pay the bonus, several billions of dollars, be issued by the United States Government and "sent to the ex-service men by registered mail." We find it in the plan of Henry Ford to finance the government harnessing of Muscle Shoals by the issuance of circulating notes based upon electrical energy, thus saving the interest on bonds. We find it in the suggestion of Thomas A. Edison that the banks issue Federal reserve notes to farmers up to 50 per cent of the average value of the products which they have stored in federal warehouses.

"Ought to Be Rich"

IN the *Ladies Home Journal* for August, 1929, John J. Raskob wrote:

"Suppose a man marries at the age of twenty-three and begins a regular saving of $15 a month. If he invests in good common stocks, through the investment trust principle, and allows the dividends and rights to accumulate, he will at the end of twenty years have at least $80,000, and (at 6 per cent) an income from investments of around $400 per month."

Any employed person can save $15 per month. Therefore, says Mr. Raskob, "anyone not only can be rich but ought to be rich."

Mr. Raskob's chief fallacy lies not in his arithmetic but in his economics. It is highly desirable that everyone be rich and well supplied with the comforts of life. But this can be accomplished only by a tremendous expansion of the productive power of the American people, involving the more economical use of our resources, the increased productivity of our labor, the more equitable distribution of wealth and income, and the stabilization of the purchasing power of the dollar.

An investment of $15 per month to total $80,000 at the end of twenty years would require a compounding of interest at the rate of 1.96 per cent per month, or 23.52 per cent per year. This rate of return may have been received on an investment in General Motors and other issues during the past fifteen or twenty years. But will this rate continue permanently so that the investor may rely upon it? Moreover, is it true of all securities? The basic idea of the investment trust is diversification, the balancing of possible losses against large gains. Mr. Raskob assumes that its managers will be able to choose only the highest yielding securities. If the approximately 24 per cent return were possible on only a few or even on all securities, would not the pressure for the purchase of these tend, as usual, to drive the price up and lower the yield to such an extent that the returns on the stock might be even lower than or equal to that on a non-equity investment?

Mr. Raskob's plan would necessitate the increase of the purchasing power more rapidly than that of the wealth of the country. More paper money would have to be issued to keep pace with the purchasing power. He confuses wealth and money. If the amount of purchasing power (money) increases more rapidly than the amount of wealth, the value of this purchasing power must fall.

Labor Reduced to Slavery

THE physical volume of production of American manufacturers increased from 1899 to 1927 by slightly more than 180 per cent. The physical output per worker increased by about 50 per cent. In terms of dollars the national wealth of the United States increased during the same period from $89,000,000,000 in 1900 to perhaps $400,000,000,000. Making adjustments for price changes, the actual wealth has increased during this most prosperous period in American history from $89,000,000,000 to about $250,000,000,000 or at the most 200 per cent, a rate of increase of about 7 per cent. Nevertheless, Mr. Raskob would have the purchasing power of $15 per month grow at the rate of 24 per cent compounded monthly.

On the accompanying chart is shown the increase in the value of the national wealth of the United States from 1910 to 1930, one of the most prosperous periods in our history. No correction has been made for price changes. Plotted on this same chart are the results of the general adoption of Mr. Raskob's savings plan. In 1910 it was assumed that 19,000,000 people, or one for every family, adopted the plan of investing $15 per month in securities yielding about 24 per cent compounded monthly.

(*Continued on page* 614)

Federal Farm Loans and the Banking Business

By GILBERT THORNDYKE

New Federal Farm Board Slowly Feeding Out Credit from Half Billion Dollar Reservoir. Effects of Agricultural Relief On Country Banking Not Yet Apparent But Expansion of Program Will Produce Forces Hitherto Absent from Government Loans.

THE great revolving fund of $500,000,000 appropriated by Congress to cure the ills of agriculture has slowly begun to revolve. The Federal Farm Board created to administer this enormous farm credit reservoir has been functioning for six months. By the end of October something like $50,000,000 had been made available.

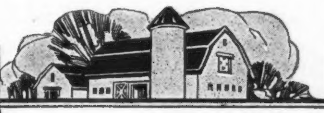
Refusal of the farm board to be rushed into scattering its resources wholesale among the first rush of eager borrowers has indicated that the latest experiment in farm relief is to be carried out along the conservative lines which hold out the greatest hope for success. Just what the prospects are for success, which means the ultimate stabilization of the markets for farm products, is too highly debatable to consider here. But the manner in which the farm board is approaching its task promises a long trial of the effectiveness of the new agricultural credits law.

In the Background

COUNTRY banks may therefore expect to find the Federal Farm Board active in the farming sections for years. A great deal of organization work must be perfected before the board will begin to function at maximum capacity. Marketing and stabilizing corporations on a national scale must be formed before the present rate of operation can be speeded up. Yet the wheels have begun to turn and banking will soon be compelled to orient itself to a new force in the credit field.

In the extensive, and frequently heated, discussion of the new farm relief measure which has now become a law, the possible effect of the experiment upon banking was kept in the background. Now that the machinery is in operation the banking angle is similarly treated. In general terms it is contended that the activities of the Federal Farm Board in making loans out of a revolving fund of $500,000,000 will not affect banking. There will be no competition between the farm board and the banks it is maintained.

Nevertheless a revolving fund of half a billion dollars provides the basis for a vast amount of credit. Banking can hardly afford to be blind to such an element in the credit situation. Most of the loans made from the fund, presumably, will be intended to finance the marketing of crops. Some of them will be used to stabilize the markets, which means to sterilize surpluses by the purchase of the over-supply.



Points of Contact

NOW that the latest experiment in government aid to agriculture through the new farm board is actually under way it is becoming increasingly evident that the administration of the credit which can be engendered by a $500,000,000 revolving fund is a matter of extreme moment to the banks of the country. Points at which Federal lending and banking may touch are pointed out here together with some indication of the extent to which banks must rely upon sound judgment in the operation of the new rural credits law.

This latter procedure promises to bring into the credit structure a hitherto unknown factor, a new type of frozen loan. Marketing loans through government agencies already form a part of the credit machinery of agriculture, but on nothing like the scale intended for the Federal Farm Board. And the Intermediate Credit Banks offer few precedents for determining the future course of farm credits.

The Intermediate Credit Banks, which were established in 1923 in response to the same demand for government aid that produced the Federal Farm Board, have become more in the nature of institutions for rediscounting agricultural paper than agencies for direct loans. Of late years the percentage of the business of these institutions done in rediscounts for other banks and lending institutions has been increasing while the percentage of advances to cooperative marketing associations has been falling off. The Federal Farm Board is designed for loans only, with no provision for rediscounting.

Cheap Money Assured

FUNDS for the operations of the Intermediate Credit Banks are obtained through the sale of their debentures. The farm board gets its money from the Treasury. Intermediate Credit Bank rates are fixed by the cost of money to them, that is, the rate on their debentures plus one point to cover expenses. Federal Farm Board rates are determined by the day-by-day cost of money to the government, that is by the rate of yield on outstanding government securities, but the farm board loaning rate cannot exceed 4 per cent.

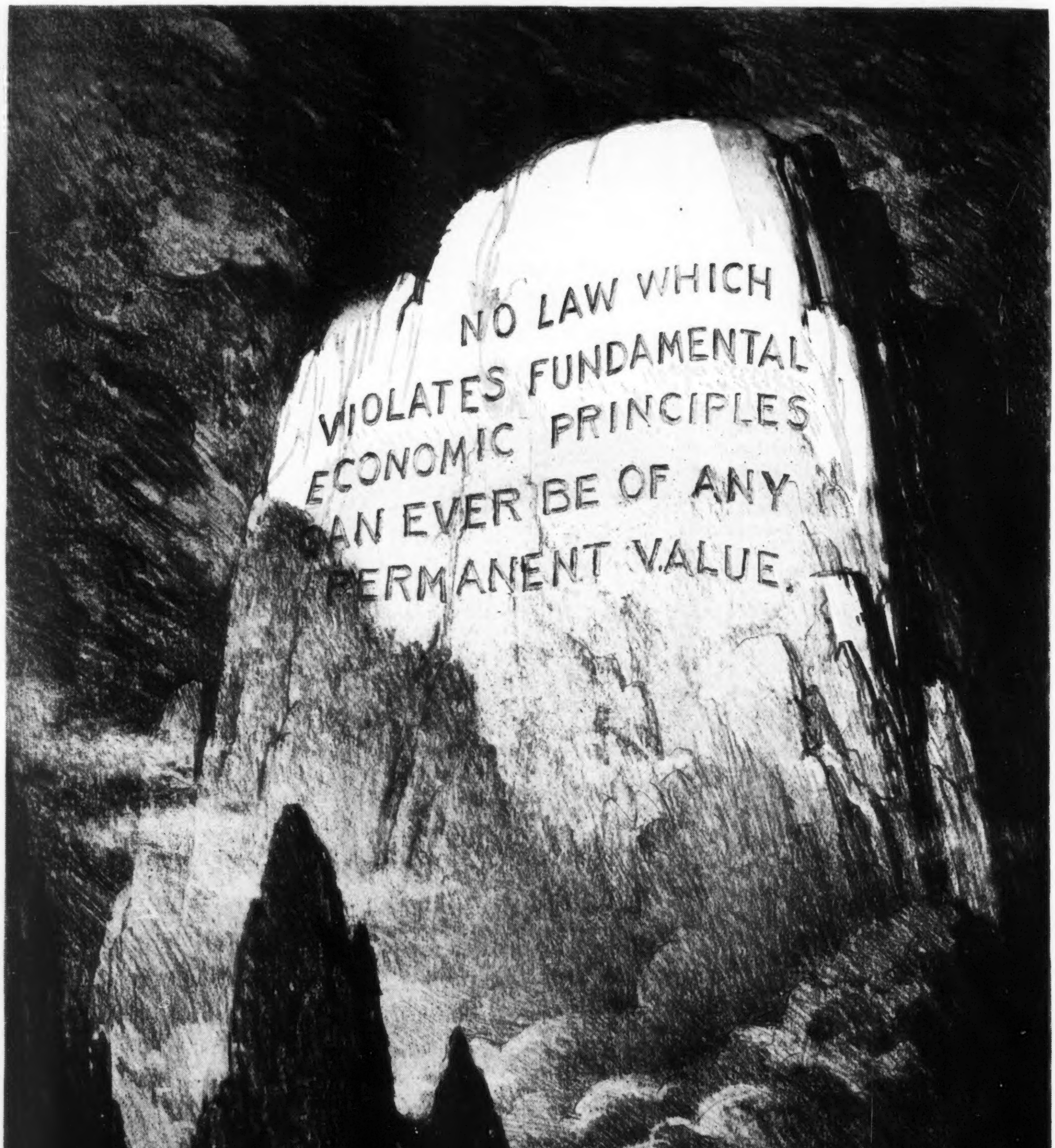
The Treasury daily advises the Federal Farm Board of the average yield on government issues on the basis of current market prices. Theoretically that is the rate the government would have to pay for money if it's borrowed that day. The government can borrow money more cheaply than the Intermediate Credit Banks and even if government rates rise the farm board can not charge more than 4 per cent. Cheap money for the cooperative organizations dealing with the farm board is insured, no matter what money may be costing the government.

Under the present set-up farm organizations must tap other sources of credit before they can get the cheap money of the farm board. The law authorizes loans from the Federal Farm Board to enable the cooperative association applying for credit to advance to its members a greater share of the commodity delivered to the association "than is practicable under other credit facilities."

Will Narrow the Field

THUS the cooperative association must shop around. It gets what it can from the banks. Some more from

(*Continued on page 612*)



"As a Banker Sees It"

As a Banker Sees It

Banking Profession Demands an Unequivocable Stand in Three Directions. Consistency Towards General Public Imperative. Self-Education Needed to Raise the Standards of Efficiency. An Undefinable Duty of Service Rules Supreme to All Else.

WHAT the banker's attitude ought to be in three respects, namely, his attitude toward the general public, especially the law-making bodies, in regard to banking questions; second, his attitude toward the profession itself; and lastly his attitude toward his patrons was the subject of an unusual address made by Carl D. Ganz, cashier of the Farmers and Merchants Bank, of Alvo, Nebraska, before the recent convention of the Nebraska State Bankers Association.

Mr. Ganz neither minced his words nor clouded his ideas. Because of the intimate nature of his talk the Journal is presenting the address which follows:

Fond Parents

"FIRST as to the general public. It is a trite thing to say that a banker should be honest and consistent in his attitude toward the general public on banking questions. You will agree with that and yet I dare say that there are not twenty men in this room, myself included, who cannot be criticized upon that very charge. How, why, when and where? All right, I'll give a glittering example.

"Some eighteen years ago there was conceived in the womb of a political necessity in this state a so-called banking child by the name of the Guaranty Law. In those eighteen years that wayward child, that black sheep in an otherwise almost respectable family, has caused those financially responsible for it their entire capital and ran them into a deficit for twice as much besides, which said deficit, may I remark by way of prophecy, will never be paid. The hard headed farmer will not pay it and the attitude of the bankers will be 'millions for defense but not one cent for deficit'. All in all it was probably the most expensive effort yet made by any state in which honest efficient people have been called upon to prove, at great expense, that the average politician's theories work out to the detriment of everybody but the politicians themselves.

I appreciate that it has had its fond parents even in banking circles. I have personally heard bankers in this state from the smallest to the largest appear before conventions and legislative committees and extol its virtues and I have always been of the opinion when I heard one of them do so that he was either lying or that as economists they would make excellent ditch-diggers. You may ask where does your honesty and consistency to the general public come in with regard to this. In my opinion it comes in in this way—fully 90 per cent of the bankers of Nebraska are good enough economists to know that such a law was inherently bad from the start, uneconomic and bound to fail. Practically all of you have said so privately time without number and you never paid a single assessment without feeling that you were being robbed and yet for eighteen long years you have met in solemn convention and the records will show that not a single resolution was ever passed condemning it as unsound banking. If you as bankers do not know what are unsound banking laws how in the name of common sense are you going to expect the general public to know. You say it never had a chance to be repealed—I say to you, that you don't know, you never tried—you just took some politician's word for that who, the chances are didn't know any more about running a bank than a hog knows about Sunday. And what if it couldn't be repealed—is that any reason why you should not stand up fearlessly in your annual conventions and tell the world what is good and what is bad so far as you know it.

Self-Analysis

IN the everyday language of ordinary conversation a country banker here hits at the causes of many banking difficulties which are usually discussed in the more cautious terms of scientific phraseology. Despite its homely treatment the address represents an attempt at self-analysis which, in uncompromising frankness, goes many lengths beyond anything done in this direction under the name of research. Many may not agree with his remarks but few will find them dull.

In Plain Words

"DID you ever stop to think that only three years ago at four different meetings of the State Bank Committee on which over three-fourths of our state banks were represented, that this resolution was practically unanimously passed:

" 'We re-affirm our strict adherence to the Guaranty Fund Law under which no depositor in any Nebraska state bank has suffered loss. We are opposed to any change in the law which will in any wise tend to obstruct, hinder or delay any depositor in any Nebraska state bank in the collection of his deposit.'

"And that within two years these same banks joined in a lawsuit to set this same wonderful law aside for a multiplicity of reasons. To all outward appearances we were for the thing for seventeen years and told them so. In plain words, we lied to the general public on that question for seventeen years for various reasons, political, cowardice, and I am ashamed to say many for selfish reasons, and, take it from me, we are going to be some time living that lie down. No, we were not honest nor were we consistent—if we had been we would have fought that law from its inception, in season and out of season, and would never have allowed a state convention to pass without passing a resolution strongly condemning the law because of its economic unsoundness.

Asleep at the Post

"DO you want another example,—one perhaps not so glittering yet showing that we were all asleep at the post? At the last session of the legislature a boy from Pawnee City introduced a measure to appropriate $150,000 to ascertain why banks failed. I wonder how many of you gentlemen wrote the governor or your members of the legislature protesting against such foolish, useless legislation. I'll wager not 10 per cent. Because you were inactive and a lot of depositors in failed banks were caused to be active by self-seeking, notoriety hunting politicians, this state is at present throwing $150,000 down a rat hole and those in charge of the administration of this law have throughout the summer been filling the press with columns giving the four or five reasons why this bank failed or that bank failed.

"This state did not need to spend $150,000 to ascertain why banks failed. There is not a gentleman in this house who does not know now and who always

(*Continued on page* 604)

Credit Inflation and the Stock Market

By GEORGE E. ROBERTS
Vice-President, National City Bank of New York

Withdrawal of Foreign Funds from American Market Assigned As Immediate Cause of Break in Stock Market Which Came in October. Market Got What It Wanted for a Time But Success Was Its Own Undoing by Depending on Unstable Money Supply

MR. FRANK VANDERLIP, returning from a trip over Europe in 1922, wrote a book of reflections upon the state of demoralization which he had witnessed. He gave one chapter to inflation, and summed it up in a few sentences. He said:

> "Of all the visitations of evil upon human society as now organized, those that follow in the train of unlimited inflation of the currency have the most profound effect. It brings on the people of a nation through every level of society an endless chain of misery and suffering."

The inflation, which made such a profound impression upon Mr. Vanderlip, was that of the lawful paper currencies, to the point of extinction or nearly so throughout the greater part of Europe. The conditions which existed at that time never have been paralleled.

Opposite Ends

THE public generally has a good understanding of how excessive issues of a paper currency which is not on a gold basis will result in a loss of purchasing power, but it does not quite so clearly understand that there may be inflation and depreciation in the case of currencies which are on a gold basis, and even in the case of gold itself. It is not always understood that rising prices and money depreciation are phases of the same situation—opposite ends of the same teter board.

This country is usually considered to have remained on the gold basis throughout the war and years following, although we maintained an embargo on gold exports for some time. However, we gained in gold holdings during the war and were practically on a gold basis; but so much credit was issued throughout the world, in one form or another, to serve as purchasing power, that it depreciated the value of gold itself, causing a world-wide rise of prices.

To illustrate: Take our experience during the war and the years immediately following:

We had a practically unlimited demand for labor and materials for the industries, backed by an unlimited amount of credit, over against a limited supply of labor and materials. The first effect of a situation like that is that whatever slack had existed in the industries is taken up; and when you have every available worker employed and every machine running, that is about all you can do to increase production for the time being. You have your organization working up to its capacity, and if you attempt to drive it harder, you create a competitive situation in which an individual employer can only increase his own output by getting labor or materials away from other employers, which is done by bidding up wages and prices. That is what we did during the war, and we came out with a wage and price level more than twice as high as the pre-war level.

Final Control

"THE greatest lesson of all from this crisis is that banking control over credit is effective only within narrow limits. All of the laws and rules that may be provided for the regulation of banks will avail nothing if the public which holds the final control over bank deposits elects to exercise that control itself. Here again, as so often in endeavoring to deal with the problems of a democratic society, we find order and progress are dependent upon understanding and cooperation."

The Deflation of 1920

THAT is inflation, and it results wherever the volume of purchasing power, be it gold or paper currency or bank credit, is issued in excess of the amount which a country can absorb without rising prices.

During the war, when the allied powers were making enormous purchases in this country, they were sending great sums of gold in payment, and this gold entering the bank reserves made possible the expansion of bank credit which occurred at that time. That period of expansion continued for two years after the war was over and culminated in 1920, when the entire system was expanded practically to the limit, including the reserve banks. The situation was strained, with interest rates at a panic level, until finally it was eased by a great deflation movement, which, by lowering all prices, reduced the amount of credit required in use. Following 1920 was a period of stagnation, but soon another gold movement into the country began.

In the first several years of this influx a considerable part of the new supplies was used to pay off member bank indebtedness at the reserve banks, but in the five years from June 30, 1922, to June 30, 1927, with an increase of $800,000,000 in our gold stock, total loans and investments of member banks increased by about $8,000,000,000, or approximately 10 to 1.

This, however, was not the total increase of bank credit, for the non-member banks participated in the expansion. The total loans and investments of all banks in the country, member and non-member, increased in that period by an amount equal to seventeen and one-half times the additions of gold.

Lost Its Equilibrium

THESE figures give the measure of the influence of these imports upon our credit situation, and suggest the influence of this credit expansion upon our business life.

I want to point out here that this gold did not come because we wanted it or planned for it. It came as the result of a combination of conditions, for none of which had we any responsibility. The trade of the world was disorganized, the industries of Europe were disorganized, and Europe was not able to maintain her accustomed volume of exports. On the other hand, those countries were under the necessity of making great purchases in the United States,

the trade balance was heavily against them, they had sold their marketable securities during the war, and they had practically no means of payment except in their stocks of gold. Furthermore, conditions were so unsettled in Europe that everybody who had anything that could be conveyed to America was wanting to establish reserves in this country. In short, the gold came as the result of abnormal, social, political and economic conditions in Europe. The world had lost its equilibrium and spilled its gold into our lap.

This gold influx was the basis of the great expansion of credit that followed. It furnished the bank reserves without which the expansion of credit could not have occurred. It was coming continuously from 1920 to 1927. Here is the fundamental cause of credit inflation.

Business Is Secure

THE bankers and economists of Europe confidently predicted credit inflation and price inflation in the United States. Some of them actually advocated as a policy the dumping of gold in the United States for the purpose of causing a general rise of commodity prices here which, they argued, would relieve the industrial depression in Europe and in the end send back all of the gold thus employed and more with it.

They were disappointed that a rise of commodity prices did not take place in the United States, as according to accepted economic theory should have been the case. As a matter of fact, it was fortunate for our country that this credit inflation did not get into the commodity markets. The difference between the state of general business today and in 1920 is due to the fact that it did not get into the commodity markets. But why did it not?

The explanation lies in the fact that our merchants and industrialists had suffered such heavy losses by the fall of commodity prices in 1920-21 that they had no inclination to increase their stocks or inventories. It takes buying, usually in anticipation of future wants or future values, to put up prices. It takes the speculative spirit, and there has been no spirit of speculation among American business men, in the commodity field, since 1920. From what they have known of new economies in production and increasing capacity for production in this country, and considering that commodity prices have been well above the level of 1913, they have had no faith in any theory of rising commodity prices. They would have none of it, and, as a matter of fact, commodity prices have tended downward throughout the years since 1920. And for that reason business is upon a secure basis today.

On Its Own Momentum

HOW, then, were these new supplies of credit to be used? It is an axiom that cheap money is bound to find a demand somewhere. It found one for considerable amounts in real estate operations, but the greatest demand did not get fully under way until the latter part of 1924 and beginning of 1925. This was the speculative demand in the stock market. Bonds and stocks had been low in price, interest rates on short loans were low, and it was possible to buy good bonds and stocks and carry them on borrowed money at less than the returns they were paying.

For example: throughout the four years, 1918 to 1921, New York Central stock was selling around $65 a share. It was paying 5 per cent dividends, and at the market price the yield was nearly 8 per cent. After 1920 capital was accumulating, gold was pouring in and enlarging the basis of credit. By the middle of 1922 time loans on mixed stock exchange collateral were down to 4½ per cent and call loans much of the time lower. The average renewal rate on call loans for the whole year 1924 was 3 1/10 per cent.

The public is quick to take advantage of such an opportunity as that to borrow money on a 3 or 4 per cent basis and carry New York Central stock on a 7 or 8 per cent basis. That was the first impetus to the stock market. And when a rising market gets well under way it travels on its own momentum. It is able of itself to attract support. Of course, such movements go too far. More people do things because other people are doing them than because they know the reasons, and that is progressively so of a bull market. The market had occasional back-sets in 1925 and 1926, but on the whole gained confidence on the recoveries, until in the fall of 1927 something happened.

Banks Were Cautioned

AS a result of a combination of factors, such as improvements in European conditions, the return of a number of countries to the gold basis and a large aggregate of foreign loans floated in this market, there began the largest gold export movement since the war. Before it ceased, by the middle of 1928, we had suffered a net loss of $500,000,000 in the standard metal.

Up to that time the incoming supplies of gold had enabled the member banks to supply increasing amounts of credit without resorting to the reserve banks for aid, but with gold flowing outward they were under the necessity of resorting to the reserve banks in order to avoid the contraction of credit. That $500,000,000 came out of member bank reserves, and if that loss had been allowed to have its natural effect, the entire credit situation would have been involved. The reserve banks met the situation by releasing credit, at the same time giving notice that they had no intention of supplying credit to finance any further demands of the stock market.

This declaration was made repeatedly, the discount rate was raised in January, 1928, again in May and again in July of that year, and other steps were taken to tighten the credit situation and to prevent the absorption of reserve credit by the market. The member banks were cautioned against allowing reserve credit to be used in the market, and so far as practicable they cooperated, not only from a sense of loyalty but because they believed the restrictive policy was correct. The figures for brokers' loans show that in the first half of October, 1929, the loans of this class held by the member banks of New York City were no greater than two years before.

I want to make clear that after the outward gold movement began the banks consistently pursued a restrictive policy toward loans in the market. Indeed, they had no alternative. They did not have the reserves upon which to base continued expansion.

The Market Found a Way

THE change in the situation effected by the loss of gold, while influencing the attitude of the banks, did not command the attention it deserved from the speculative public. The market was under too much momentum to take it seriously. The market was strong in the opinion that it could get what money it needed by paying higher interest rates, and proceeded to demonstrate that theory with considerable success. Of course, it is known that higher interest rates will attract money. They have a saying in London that 10 per cent will draw gold out of the ground.

The manner in which money or credit responds to high rates is simply an illustration of the ordinary workings of the law of supply and demand. If any commodity is in short supply, so that there is not enough to meet all demands, the price naturally rises until a part of the demand is eliminated, and an equilibrium is established on the new basis. The people who are willing and able to pay the price get what they want and others go without.

There is elasticity in all uses of credit, particularly over limited periods. Nearly every locality can practice economy in the use of credit for a time, and with money lending in Wall Street at 7, 8 and even higher rates, there was a strong inducement to practice it. Savings, profits and other free funds, which normally would be going into permanent investments, were attracted to the stock market for investment or loan. In the government statistical year ended June 30 last, for the first time in twenty years the aggregate of savings deposits in the United States showed a decrease. Every part of the country was undergoing the pressure of rising interest rates. The market had found a way to go around the banking system to the original source of funds. This is the outstanding feature of this period.

Why the Market Broke

THE high rates for money reached beyond this country. They affected all the money markets of the world. American capital has been an important factor in the recovery of Europe since the war. The first effect of rising interest rates was to stop the flotation of for-

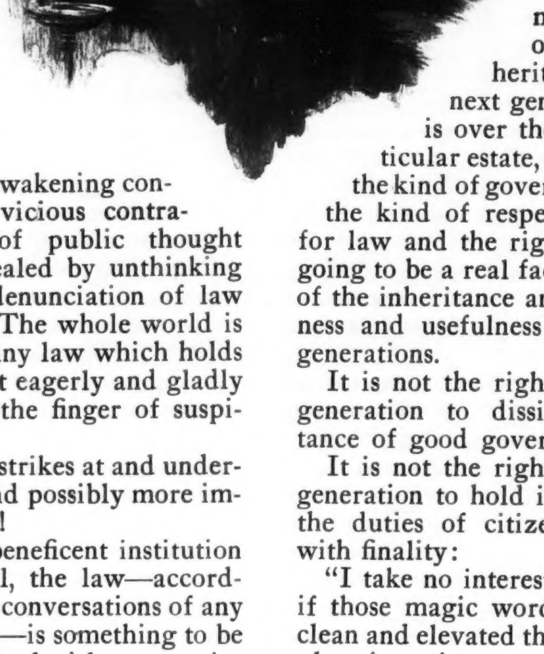
(*Continued on page* 603)

What Will They Inherit?

THE old idea was to leave an estate sufficient for the care of the family—just leave it.

But an inheritance without provision for its conservation and its continuity all too often proved to be a calamity instead of a blessing.

Now, therefore, the public has seen the light and is becoming "estate minded" and "trust minded," and is availing itself of the splendid advantages of trust companies to safeguard estates and inheritances both from dangers within the character of the legatees as well as the dangers from without.



Yet going along with this awakening consciousness is a vicious contradictory trend of public thought everywhere revealed by unthinking and wholesale denunciation of law and authority. The whole world is impatient with any law which holds it in check and it eagerly and gladly looks wherever the finger of suspicion may point.

That practice strikes at and undermines another and possibly more important heritage!

Instead of a beneficent institution protecting us all, the law—according to the casual conversations of any day or any place—is something to be scoffed at, and the legislators are individuals to be scorned.

The quality of government, the character of society, the strength—or the feebleness—of public opinion are factors which concern the heritage of everyone's children.

That heritage of those sacred essentials is being weakened and dissipated by the resignation of good men to the evils of the times, by the failure of so many men to exercise their rights of citizenship.

The finest, the best, the most edifying, uplifting and sustaining heritage that the world has ever received was a heritage of respect for the law.

There might well be as much—or more—anxiety over passing that heritage on to the next generation as there is over the care of a particular estate, or trust, because the kind of government we have; the kind of respect that prevails for law and the rights of others, is going to be a real factor in the value of the inheritance and in the happiness and usefulness of the coming generations.

It is not the right of the present generation to dissipate its inhertance of good government.

It is not the right of the present generation to hold itself aloof from the duties of citizenship, and say with finality:

"I take no interest in politics," as if those magic words washed them clean and elevated them to a superior place in society.

James E. Clark

The Operating End of Bank Mergers

By FRANK LOOMIS BEACH

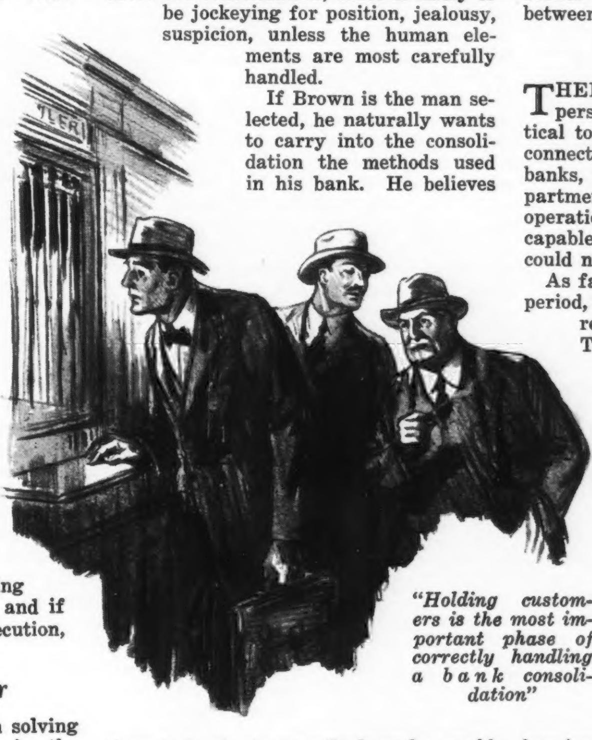
To Avoid Confusion, Lower Operating Costs and Hold Business Are Foremost Among the Problems. Human Factor Most Important in Solving Them. If Human Factor Is Underestimated Consolidation and Period of Uncertainty May Be Increased.

THERE need be little confusion when banks are merged if allowance is made for human nature, if planning is carefully done, if the ground work is laid far in advance. Yet in many consolidations there has been confusion, night work, friction, mistakes, customer irritation—sometimes continuing for months.

If a consolidation is to justify the hopes of its proponents, there must be an increase in net profits. A bank consolidated or single has but little control over its gross income. World money markets govern forces too great for even the most powerful chain to materially alter. The increasing net profits must come primarily through reduction in operating costs.

Holding customers is the most important phase of correctly handling a bank consolidation, it can scarcely be classed as a full success if there is a material loss of deposits.

These three problems loom to the front in every consolidation: (1) avoiding confusion, (2) lowering operating costs, (3) holding business. If the size of the problem is properly anticipated, if planning is done far enough in advance, and if there is well-organized execution, these can be solved.



"Holding customers is the most important phase of correctly handling a bank consolidation"

The Human Factor

THE most important factor in solving the consolidation problems is the human one. Each organization has been gradually developed. The sum total of all the business effort an employee has put in during his lifetime has brought him to a certain height, possibly a department head.

Jones is head of the bookkeeping department. He has had this position five years. He feels that he has made a success of his department and he has been given practically a free rein to direct his ten bookkeepers as he wishes.

Across the street Brown has had the same job for eight years.

Both Brown and Jones cannot head the combined department in the consolidated bank. Some No. 1 man is going to drop to be a No. 2 man. With the increased importance of the department his No. 2 job may work out fully as satisfactorily as his former place, but for some time before, during and after the consolidation, there is likely to be jockeying for position, jealousy, suspicion, unless the human elements are most carefully handled.

If Brown is the man selected, he naturally wants to carry into the consolidation the methods used in his bank. He believes them to be the best methods or he would not have previously adopted them. To him the fact that he has been appointed head of the consolidated department vindicates his judgment on systems.

Yet the mere fact that these methods are from Brown's bank makes it hard for Smith and his following to accept them.

On top of these organization upsets comes overtime and people become tired and irritable. If these human factors are underestimated, a consolidation may cost many extra thousands of dollars and take unnecessary months. Errors will occur with the possibility that the unrest will react upon customers.

A man who has had much experience during the last year with some of the largest consolidations in the country states: "It is almost a physical impossibility to handle the mergers through the committees without these committees sooner or later getting into controversies between themselves."

No Single Answer

THERE is no single answer to the personnel problem. Where it is practical to have an outsider not previously connected with either of the merging banks, take charge of bringing the departments together, he may obtain cooperation when one, no matter how capable, in either of the merging banks could not do so.

As far as possible during the merging period, salary adjustments, transfers, removals should be avoided. If Thomas, who has been holding onto his job for a year merely through the inertia of the discharging mechanism, is let go in the midst of the excitement, other men are likely to figure that they are next in line for dismissal.

The duties of each person, from clerk up, should be carefully mapped out, preferably in writing, prior to the consolidation. In many cases these assignments may be temporary, but if each person definitely knows what is expected of him, and what his authority is, during the first few weeks, much of the apprehension and uncertainty will be eliminated. Small joint meetings of division heads within each department should be held semi-weekly before and after the consolidation, letting these people get the broad picture, become acquainted with the men from the other bank, and have an outlet for their ideas or criticisms.

Every officer and every department head should be definitely assigned the task of "selling" the consolidation to each employee under him. By doing this with enthusiasm the officers themselves will get the picture and much will be accomplished toward having the entire

organization take up the big merging job with enthusiasm.

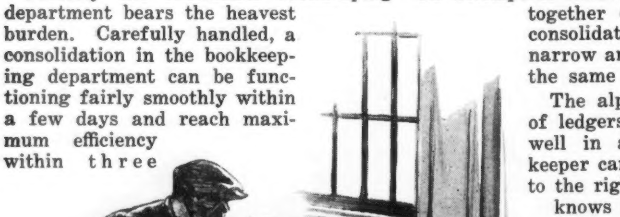
There might profitably be issued semi-weekly a small house paper for circulation exclusively among the employees of the merging banks, dedicated to the task of building esprit de corps. It should keep every member of the organization informed of the many things developing in which he is interested. Rumors breed on lack of information.

An emergency squad should be organized and trained that can step in any place where extra help is needed.

The Merging Date

SEVERAL of the largest consolidations have arranged their physical merging dates to come after a bank holiday or over a week-end. Arrangements have been made with the principal clearing banks and with the post office to receive clearing and mail items the night before and during the holiday. This gives opportunity for a dress rehearsal. With no rush to catch mail trains or to meet clearing hours or to accommodate counter customers these items are sent through the works. Every teller and every clerk learns where he is to go and what he is to do, and on the opening day there is possibly half of the work out of the way.

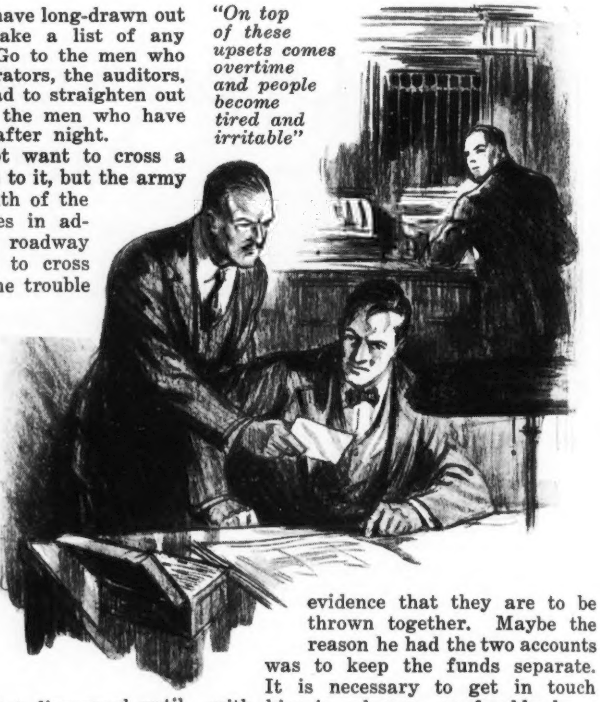
Possibly the individual bookkeeping department bears the heaviest burden. Carefully handled, a consolidation in the bookkeeping department can be functioning fairly smoothly within a few days and reach maximum efficiency within three months. If not carefully handled, there may be a long period of overtime and errors.



"No questions had to be asked by the movers"

Is it impossible to have long-drawn out confusion? Then make a list of any five consolidations. Go to the men who really know, the operators, the auditors, the men who have had to straighten out customers' accounts, the men who have had to work night after night.

A banker may not want to cross a river before he comes to it, but the army which knows the width of the obstacle and prepares in advance pontoons and roadway planks will be able to cross with a fraction of the trouble of the army that makes no plans until it reaches the river bank.



"On top of these upsets comes overtime and people become tired and irritable"

Both departments should be exactly synchronized in advance. This means that they should use the same size ledger sheet, the same type of equipment, the same method of proof. Such a little thing as a half inch difference in the width of ledger sheets does not help when not discovered until an attempt is made to sort the sheets together on the eve of the consolidation and handle the narrow and the wide ones on the same machine.

The alphabetic breakdown of ledgers should be decided well in advance. A bookkeeper cannot post the check to the right account until he knows the signature "M" with a wavy line attached spells "Mohony." Hours of extra time are required unless one knows the signatures, deposits go to wrong accounts, checks are sent back in error. With the split-up of ledgers decided several weeks in advance and bookkeepers assigned, it is possible to trade help so that each bookkeeper can work with the accounts he will be called on to handle under the new set-up. This trading plan also helps the men from the two organizations to become acquainted. Word should be passed down the line that these visting bookkeepers are to be treated so that they will feel welcome and at home.

All accounts which are joint between both banks require individual attention. Because John A. Smith has an account with both banks is not sufficient evidence that they are to be thrown together. Maybe the reason he had the two accounts was to keep the funds separate.

It is necessary to get in touch with him in advance, preferably by a personal call from one of the officers or department heads. Both banks may have an S. T. Brown account, different men, T. H. Harper, the same man.

A consolidation is an excellent time to start a set-up which will give the maximum economy and control for coming years because in consolidating there must be changes anyway so there is no need of repeating them six months later.

One midwestern bank consolidated the transit and outgoing clearing departments in advance of the merging date. Napoleon always maneuvered to take on one wing of the enemy at a time. If the banking houses are not too far apart it is practical to consolidate the proof departments some days in advance, picking up the deposits from the building which is to be vacated in the merger and taking them to the central proof department. "On us" items are returned for posting with accompanying tapes by the same messenger service.

When it comes to actually moving the furniture and equipment, preparation again lessens the problem. A large scale blue print should be obtained of the quarters to be occupied, not less than one-quarter inch to the foot. Pieces of paper can be cut to scale to show the amount of floor space required for a bookkeeping machine, for an individual adding machine, for a desk, for a typewriter, for a particular file. Each of these pieces is numbered to correspond with a specific number carried on a tag attached to the particular piece.

These slips of paper can be shifted around on the blue print until the best room arrangement is secured. Then some paste and a photostat and the floor plan is completed.

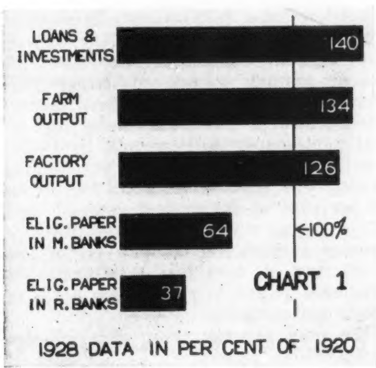
(Continued on page 620)

Installment Credit in Times of Stress

By MILAN V. AYRES

Installment Sales Credit Structure Held Undisturbed by the Recent Stock Market Crash. Stability of Finance Companies During 1920 Business Depression Cited. Proposed That Their Paper Should be Made Eligible for Federal Reserve Discount.

WITH increasing frequency in recent years when finance companies have sought to get a loan or an increased line of credit from a bank they have been told that they could not be accommodated because their paper was not eligible for rediscount at the Federal



reserve banks. Although there is nothing new about this, the experience has undoubtedly been more frequent during the past year than ever before.

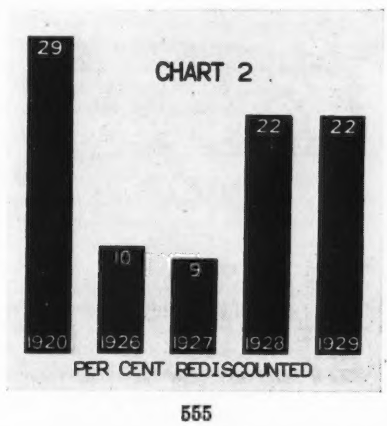
Finance paper really would be more attractive to the banks if it were eligible for rediscount. The banks have a real justification for preferring eligible paper, because of the fact that at the present time there is not enough such paper to meet their needs. We are justified, therefore, in asking how the apparent discrimination against finance company paper came into existence and what can be done to remove it. The Federal Reserve Act, which prescribes the powers and duties of the Federal reserve banks, says nothing about finance company paper, but it does give a broad general definition of the kinds of paper which can be rediscounted. It is the interpretation given to that definition by the Federal Reserve Board which has resulted in the exclusion of finance company paper.

At Times of Stringency

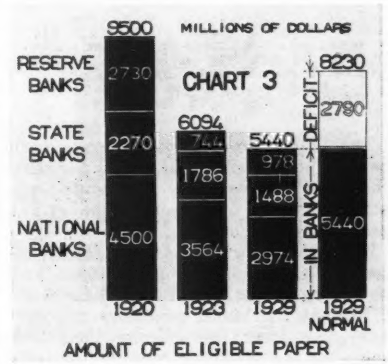
IT never was the intention of Congress that the reserve banks should rediscount all kinds of safe and sound commercial paper. Consequently, the argument that finance company paper is as safe as any other is of very little weight, until other qualifications for eligibility are first established. To determine what these other qualifications are, we must go back to the reasons why the Federal Reserve System was created.

It was created primarily for the purpose of preventing financial panics, and incidentally to afford relief at times of credit stringency of less serious character. It used to be that every few years a crisis arose when it became impossible to get enough money or enough credit for the immediate needs of business, and as a consequence great bank failures and commercial failures occurred, factories shut down and thousands of men were thrown out of work. At such times it was obvious that if the banks had been able to absorb a considerable amount of new short time paper based on current industrial and commercial needs, the panic could have been averted. Furthermore, every autumn, at crop moving time, credit became scarce, and interest rates rose. Here, also, the absorption of additional commercial paper would have afforded relief. The principal aim, then, in creating the Federal Reserve System was to provide banks which would be able to rediscount that kind of paper in any volume in which it would be likely to be offered.

The Federal Reserve Act was enacted in December, 1913, almost sixteen years ago, and it has admirably accomplished



its primary purpose of preventing credit stringencies and panics. Many important changes in our economic life, including those resulting from the great war, have occurred in those sixteen years, but the Act has had few and slight amendments. One of the changes which have been going on is reflected in



the objection which bankers so often make to finance companies, that their paper is not eligible for rediscount with the Federal reserve bank.

Shrinkage Is Acute

THAT objection grows out of a condition which is set forth in the following excerpt from an address delivered by Dr. W. Randolph Burgess, Assistant Federal Reserve Agent of the Federal Reserve Bank of New York, before the Federal Acceptance Council on December 11th, 1928. He said:

> "Since 1920 the amounts of eligible paper held by national banks have diminished from 4½ billion dollars to less than 3¼ billion dollars, or from about 25 per cent of total loans and investments to about 15 per cent, and the tendency is continuing. This is due undoubtedly to changes in methods of business finance. Urged on by bankers, many business concerns have liquidated their bank loans by selling securities. How far this tendency will go, no one can say. It depends in part upon money market conditions, but it is favored by current low yields on securities, by the profit bankers make in these financing operations, and by the freedom from obligations to banks which it gives business men. In its definition of the eligibility of paper for rediscount, the Federal Reserve Act hardly contemplated this change in American financing methods. Carried to an extreme, these changes may make necessary some modification of the Reserve Act."

Dr. Burgess said that the tendency which he pointed out was continuing. He was right. During the six months following the date of his address the eligible paper held by national banks decreased from 15 per cent to 13¼ per cent of their loans and investments. Here we have the clue to the bankers' attitude. They are concerned because that fraction of their assets which consists of eligible paper is constantly growing smaller. Not only has the amount of eligible paper been decreasing for years, but at the same time the volume of banking business and the volume of business and industry generally on which the banking business is based, have been increasing rapidly, so that the growing deficiency of eligible paper with reference to the needs of business is more acute than would be indicated merely by its numerical shrinkage.

Emergency Insurance

IN Chart 1, the lengths of the bars indicate how these measures of business activity for 1928 compare with their volume for 1920. They are:

	Per Cent
Loans and investments of Member Banks	140
Index of agricultural production	134
Index of industrial production	126
Eligible paper held by Member Banks	64
Eligible paper held by Reserve Banks	37

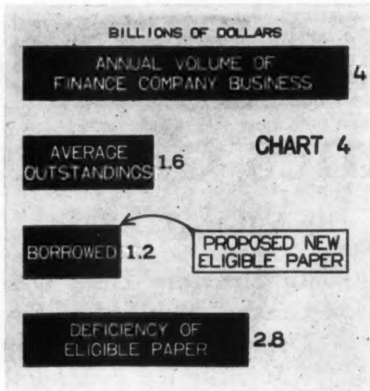
The figure for eligible paper in both member and reserve banks is 55 per cent. Thus, while loans and investments were increasing 40 per cent, eligible paper has decreased 45 per cent.

It might be supposed, from this shrinkage in the amount of eligible paper, and the expressed desire of bankers for more of it, that the banks generally are now borrowing from the reserve banks as much as the existing volume of such paper will permit. But such is not the case, as is evident from the relative length of the two lowest bars in the diagram, which show that eligible paper held by the reserve banks, that is rediscounted paper, has decreased much more than that held by member banks.

The rediscount privilege is in the nature of emergency insurance. It is not intended that banks should rely on it as a continuous source of funds, and in fact they do not. Much the larger part of eligible paper never goes through the reserve banks. It is held by the commercial banks of the country as a sort of secondary reserve, a back log which can be used in emergencies to prevent a cash stringency. Naturally, at a time of high interest rates or credit stringency, a larger proportion of it is rediscounted than at other times, but even then much the greater part remains in the member banks.

A Logical Deduction

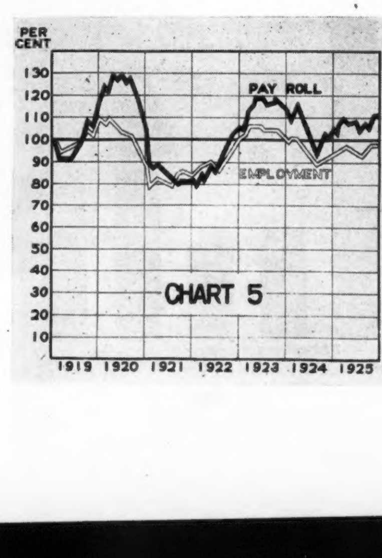
THIS is shown by the columns of Chart 2, which indicate what percentages of all eligible paper in the hands of member and reserve banks were in the reserve banks at the end of 1920 and on June 30 of the years 1926, 1927, 1928 and 1929. Starting with 29



per cent in 1920 this figure dropped to 10 per cent in 1926 and 9 per cent in 1927 and then, during the first half of 1928, rose from 9 to 22 per cent at which point it remained for at least a year, or until June 30, 1929, the date of our latest available figures. Even during the depression of 1920, apparently not as much as one-third of the existing eligible paper was rediscounted, so it seems a logical deduction that for some reason, dependent on practical banking methods, it is not practicable to rediscount more than about one-third of the eligible paper existing at any one time.

Unfortunately, it is only lately that there has been any appreciation of the need for knowing how much eligible paper there is. The amount of such rediscounted paper held by the reserve banks has been reported monthly from the beginning but not the amount held by the member banks. For the latter we have only the figures given by Dr. Burgess for national banks in 1920, annual figures as of June 30 for the national banks beginning in 1923, and complete figures for all member banks, including state banks, for each June 30 beginning with 1926. On the basis of this data, and some estimating Chart 3 has been prepared.

The heights of the first three columns represent the total amount of eligible paper existing in all the member banks and the reserve banks at the end of 1920 and as of June 30 for 1923 and 1929. Figures are in millions of dollars. Most of the reduction took place between 1920 and the middle of 1923. A considerable



part of that reduction was undoubtedly due to the change from the distressed conditions of 1920 to the nearly normal conditions of 1923. Undoubtedly at the end of 1920 the amount of eligible paper was above normal. If we make the not unreasonable assumption that it was normal in 1923, how much such paper should there have been in 1929? The answer is indicated by the height of the last column. It was arrived at by multiplying the 1923 total by the ratio of total loans and investments of member banks for the two periods. In the six years from 1923 to 1929 loans and investments increased 35 per cent. It is assumed that eligible paper should also have increased 35 per cent. That results in a "Normal" of $8,230,000,000 as compared with an actual total of $5,440,000,000, leaving a deficit of $2,790,000,000. That is the approximate amount of new eligible paper apparently needed at the present time.

IF finance company paper were made eligible, how far would that go toward making up the existing deficiency? The question cannot be answered with precision, but a fair estimate is possible. The bars in Chart 4 indicate the answer. The top bar represents the total estimated annual volume of paper purchased by finance companies, namely $4,000,000,000. If this were all installment paper paying out in twelve months, the average amount outstanding at any one time would be a little over 50 per cent of the annual volume. But while some runs for longer time, a greater amount undoubtedly is for less time, and a considerable fraction is wholesale paper in short term notes of single maturity.

We may assume, then, that average outstandings amount to 40 per cent of annual volume, or 1.6 billions, represented by the second bar. Only part of that is borrowed from the banks, the balance being supplied by the capital and surplus of the finance companies. Assuming that three-fourths are borrowed, we have 1.2 billions, represented by the third bar, as the amount of finance company paper in the hands of the banks. This compare with the bottom bar, which represents the computed deficiency of 2.8 billions in our present supply of eligible paper.

Allowing for errors in our estimates, it seems probable that the amount of paper to be made eligible by the proposed change would be not less than one billion and not more than one and one-half billions. This is far less than sufficient to make up the present apparent deficiency of 2.8 billions in our supply of eligible paper, although it would be a substantial contribution toward that end, and is certainly too small to justify the slightest apprehensions that it might contribute to an inflation of credit or to any other unsettling of the nation's fiscal organism.

And finance company paper is safe; not so safe as government bonds, to be sure, but safer than the average run of commercial paper. This is the

(*Continued on page* 620)

Essentials of a Liquid Loan Policy

By FRED R. SMITH
Superintendent of Banks, South Dakota

Investment of Banking Funds Is Beyond Control of Definite Rules, But Bankers Must Think and Recognize the Chances that Tomorrow is About to Bring, Not Alone to His Community, But In All the General Phases of National Finance and Commerce.

IN attempting to set up a loan policy in which liquidity is the paramount object, I recall the experience of a certain national bank that had been under the same management for over a quarter of a century. Its officers had builded for the bank and for themselves a reputation that was unmarred. Its business was profitable, conservative, and it was serving its community in excellent manner. For years its total resources had been between $400,000 and $450,000.

Wild-cat oil prospecting was undertaken in the community, and one morning the oil world awoke to hear the story of another gusher, the promise of another big field. Drillers, investors in leases, and all other classes that follow the discovery of new oil fields rushed to the town. Staid prairie farmers were possessed of fortunes overnight. The business of the bank increased over a million dollars. Investment of funds was a serious problem. A new loan policy was essential.

Closed Its Doors

THERE was too much uncertainty about the length and extent of the future of the oil field to justify the officers and directors of the bank in loaning the funds that had been deposited with the bank in the business from which the funds had come, for these men were ultra conservative. Not wishing to take thoughtless, ill-advised action in placing funds for investment, the officers consulted with the investment officers of their correspondent banks in financial centers. It was determined finally that positive safety demanded the investment of the funds in the highest type of investment the world affords, the obligations of the United States Government, and so all surplus funds were invested in United States Liberty Bonds.

Within the period of a few months, the gusher ceased to flow, other wells developed to be dry holes, dusters. The influx of population packed up their things and sought new fields. As they left they drew their deposits. The bank sought to borrow upon its bonds, sought to sell its bonds, but the market was at eighty-four. They could not meet the demands of customers, and a twenty-five-year-old bank with unsullied reputation closed its doors.

The incident related serves but one major purpose. It emphasizes the fact that a loan policy for a country bank or for a city bank cannot be set up in detail that is good for any continued period, or for any wide territory. Conditions change with time and place, and a loan policy that might be good today in some part of one of the states attending this conference, may be tragically dangerous in a part of another state, or may be entirely improper three months from now. These conditions are responsible for the necessity of refraining in the country bank from long time financing, and they also emphasize the necessity of localized training for bank officials.

Not Impossible

BECAUSE banking under various conditions, especially country banking, is not susceptible to permanent rules no fixed ratios of investment in certain loans are set up here. Nevertheless it is contended that banking is a business of thought, study, initiative, integrity and service, and given a board of directors possessed of these qualities and directing officers capable of execution and mindful of the experiences of the past, a proper loan policy to insure liquidity will not be impossible nor too difficult.

Must Think and Act

THE fact that the details of a permanent loan policy effective in all communities cannot be set up is not an indictment of the banking business or of bank officials. The investment of banking funds is not nor should it be an undertaking that can be controlled by definite rules.

The banker that must have rules for his guidance in investment as he has rules to guide him in computing interest accounts, is not worthy of his position. A banker must think and act in terms of today and in terms of his particular situation. A banker must think and recognize the chances that tomorrow is about to bring, not alone in the particular status of his community, but in the general phases of finance and commerce, production and consumption, demand and supply.

In this discussion I am considering the investment of funds available after the establishment of proper primary and secondary reserves, the necessity for which is more apparent now than it has ever been before in the history of banking.

Difficult as it is to set up an affirmative loan policy in detail for all situations, there are, however, three general phases of the problem that can be definitely and positively determined.

Deposit Accounts Control

THE first of these is that a loan policy must be controlled directly by the character of the deposit accounts. A loan policy for a bank that had time deposits and demand deposits in the ratio of one to two would be entirely improper for a bank that had deposits in the reverse ratio, and while there could be no criticism of liquidity if the last named bank adopted a loan policy that was acceptable for the first named, the second bank, with time and demand deposits in the ratio of two to one might very properly be criticized for failure to invest its funds at the maximum rate of return.

Time deposits that are known by the banks' directors to constitute in reality an investment of somewhat permanent character by the depositor, may be properly invested in relatively long term loans, provided that such loans are and only when they are secured by properties having an ample margin of value, and of such types as to be subject to the minimum possibility of depreciation and flexibility in value. A first mortgage real estate loan or a loan collateraled by sound long term bonds would be acceptable for the investment of these funds.

Time deposits that are seasonal must be loaned only on seasonally liquidating loans. The money deposited on time by the grain farmer from the proceeds of the sale of one year's crop, and which

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On the Tip of a Match

Enormous Swedish Match Trust Maintains Monopolies All Over the World and Finances Foreign Governments With Loans From Funds Obtained Through Its Access to American Money Market. It Operates as a Far-Flung International Investment Trust.

Whither Matches?

THIS article, by a man who knows his matches but must perforce remain anonymous, raises the intriguing question of what will be the future of the great international match trust, with its ramifications into nine countries and its predominance of American capital, when the centralized control, now exercised by one man at the top of the giant organization, is broken by the inexorable force of time.

TOWARD the end of October the German Government formally announced the successful negotiation of a loan with the Swedish Match Trust for the sum of $125,000,000 at the modest rate of 6 per cent. The transaction, interesting as it is from a purely financial standpoint, in view of the probable call on the American money market for a good share of the required amount, also presents a striking illustration of the international financial position of one of the outstanding industrial organizations of modern times.

Incidentally, it serves to call attention to the unsatisfactory condition of the match industry in Germany, blamed largely on the alleged dumping practices of the Soviet match trust, and gives the Soviet press an occasion to expose another instance of the anti-Soviet machinations of international capitalism.

On Many Supports

TO those unfamiliar with the history and standing of the Swedish Match Trust, it might come as a surprise that a private Swedish corporation should be in a position to come to the financial assistance of one of the leading countries of Continental Europe with a loan of such magnitude and at a rate of interest which, it is generally admitted, Germany could not possibly obtain directly, leaving out of consideration the fact that any international credit operation by Germany would be rather inopportune at present.

In discussing the Swedish Match Trust one is tempted to paraphrase the old theological riddle about the number of angels that could find dancing room on the point of a needle and ask how many millions can be balanced on the tip of a match. Like most more or less bright remarks, it would not be strictly correct, since the rather imposing financial structure built up by Ivar Kreuger now rests on many other supports in addition to matches; there are, for instance, the famous Grängesberg iron ore mines in Sweden, choice real estate in Stockholm and Berlin (some of it acquired through an American subsidiary during the period of currency depreciation), water power resources, lumber and pulp mills, banks and other financing organizations, and government loans, to mention only the outstanding items.

From a technical standpoint the Kreuger concern might be regarded as a rather specialized investment trust controlling, as a holding company, an extensive industrial organization devoted to the production and sale of matches and related materials and machinery on a world scale, in addition to its holdings enumerated above. It is admittedly a highly condensed definition which does not do justice to the versatility of the concern, but we shall try to complete the description when dealing with its rather interesting subsidiaries.

The Most Advanced Type

FROM an economic standpoint, and considering only its match interests, it would be safe to describe it as probably the most advanced type of international trust in existence, and perhaps a prototype of the international trust of the future. This is not due to its size, which is exceeded by a number of American combinations and even some European, but to the fact that it is so highly integrated, controlling not only practically every phase of its production, but also many of its markets through long-term monopolies guaranteed by governments.

To use a parallel from American business experience, we might say that if Henry Ford could extend his production to supply the bulk of the world automobile demand, and at the same time could obtain absolute or practical sales monopolies in many markets, partly through his ability to grant long-term loans to needy governments, we would have an organization corresponding to the Swedish Match Trust, although on a much larger scale, of course.

A Select Portfolio

THERE is at the head of the concern Kreuger and Toll A. B., officially described as "an organizing, managing and financing company." It was organized in 1911 with a capitalization of 1,000,000 Swedish crowns as a construction company. At present it is an investment trust with a rather select portfolio and the holding concern for Kreuger's controlling interests in the world match industry as well as other investments.

The present capitalization of a little over $107,000,000 consists largely of debentures; the share capital of somewhat over $20,000,000 is divided into A shares with a vote for each 100 crown share, and B shares with one one-thousandths of a vote per share. The Kreuger control is based on the ownership of the A shares. According to a recent analysis by a Swedish publication, the present assets of the corporation, amounting to $230,000,000, includes state loans, real estate, industrial shares and bank shares.

In adidtion to its controlling interests in the various industries, financial institutions and real estate holdings, we might mention its two subsidiaries in the United States and Holland, used largely for financing the enterprises of the concern other than those connected with the production and distribution of matches. The Swedish-American Investment Corporation was organized in 1925 as an investment trust to take over some of the holdings of Kreuger and Toll, including the real estate in certain European capitals originally acquired through the American Kreuger and Toll Corporation organized in 1919. It is reported that the holdings of the Swedish-American Investment Corporation are to be taken over in part by the Amsterdam financing subsidiary of the parent corporation, and that the American market is to be reached more directly by the Swedish corporation. The Amsterdam subsidiary, organized in 1926, showed assets of over $60,000,000

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Anomalies in the Bond Market

By MAX WINKLER

Resumed Foreign Lending Essential to Continued Prosperity. Economic and Financial Interdependence of Old World and New Creates Common Conditions. Success of Young Plan Dependent On Germany's Ability to Borrow. Status of Dollar Bonds.

CLOSING quotations on Nov. 19 of many foreign bonds reveal some rather interesting anomalies.

The 7 per cent bonds (Series D) of the Department of Antioquia, the richest and most progressive province in Colombia, were quoted at 73, while the 7 per cent bonds of 1957 sold at 65. One 7 per cent bond of the Republic of Bolivia was quoted at 84, while another 7 per cent bond was selling at 75.

Is it possible that the credit of Antioquia is measured by different standards in regard to the series "D" bonds than in regard to the 1957 issue? Is it within reason to assume that the Republic of Bolivia will adopt a different attitude toward one issue from the attitude she will adopt toward another band? Has the status of the Rhine Westfalia Electric Company, one of Europe's foremost public utility enterprises, undergone such a marked change within twenty-four hours as to justify an advance of over 12 points in its 6 per cent bonds within that length of time?

Bonds and Prosperity

FAILURE of the bond market to react more favorably from the slump in stocks is attributed here to a tendency on the part of the public to try the stock market again rather than seek fixed incomes. A change of attitude is called for on the ground that American prosperity cannot be maintained in the face of depression of Europe and hence a resumption of foreign loans must soon set in, which would mean a return of bonds to favor.

Hectic Selling

IT was felt for a time that following the spectacular collapse in stock prices, the American investing public would gradually return to bonds and fixed income-bearing securities. Thus far, however, the huge losses sustained in the stock market do not seem to have taught the lesson that one pays most for what one attempts to obtain for nothing. Once again, the truth of the Hegelian dictum was proved, viz., "We learn from history that we learn nothing from history."

When bonds declined rather sharply simultaneously with or immediately following the decline in stocks, it was stated rather generally that bonds were offered irrespective of price, largely in order to protect positions in stocks. But when the hectic selling wave subsided, it was confidently expected that bond buying would be resumed on an increasingly large scale, especially in view of the decline in interest rates and the admittedly promising outlook for money.

Contrary to expectation, the bond market grew weaker and, in Mid-November, many bonds, especially foreign issues, were offered for sale without finding buyers, with the result that most illogical and unreasonable quotations were registered. It is, of course, possible that we remember rather vividly the recently propounded doctrines in regard to the distinct preference of stocks as long term investments over bonds which "do not reap the increment gathered by the investor in sound common stocks." Consequently, many investors who lost in the recent decline are of the opinion that by reentering the stock market, they would more easily recoup their losses than they would by investing in fixed income-bearing issues.

Foreign Financing Shrinks

THIS view, according to them, is especially true in the case of foreign bonds. We must not, however, overlook the fact that because of the existence of a pronounced economic and financial interdependence between the Old World and the New, it is difficult, if not impossible, for the one part to continue prosperous while the other remains depressed.

Let us consider this point from the broader angle: Our sales to the rest of the world aggregate about $5,000,000,000 a year, while our imports total about $4,000,000,000, leaving us with a favorable trade balance of over $1,000,000,000. Due to the large indebtedness to us, payments on account of interest and sinking fund approximate another $1,000,000,000, remittances, tourists' expenses and other invisible items go a long way toward offsetting our favorable balance, but the amount is admittedly too small to neutralize it entirely. It is because of this fact that, in the past, foreign loans had to be contracted.

Foreign financing has, so far this year, shown a material shrinkage, largely because of the speculative frenzy which has prevailed until recently, and which rendered it distinctly unprofitable to purchase fixed income-bearing securities. The sensational decline in the market and the resultant losses to large numbers of our investing public are likely to bring about a material decline in Europe's sales to us, especially in such commodities as may be classified as luxuries or semi-luxuries. This, together with a high tariff, may eventually reduce Europe's ability to take and pay for American merchandise. The decline in our market is also likely to be felt in regard to remittances and tourists' expenses abroad, making it even more difficult for Europe to comfortably take care of her heavy burdens incident upon her obligations to us.

The Only Remedy

THAT Europe and the rest of the world need American goods, cannot be denied. The question arises as to how to pay for them. Europe, for example, is a large consumer of American copper, which has been maintained at fairly high prices. Based on such quotations, copper companies should and no doubt will show large profits. However, with Europe's ability to purchase our copper materially impaired, she could not pay for it, even if the price were considerably below prevailing levels. The same applies to other lines.

It, therefore, appears that the only remedy in the present situation lies in the resumption of lending to Europe on a large scale, thereby increasing Europe's buying power and her ability to acquire and pay for our excess production. The action of the stock market within the past four weeks is likely to result sooner or later in the investing public taking a more favorable attitude toward bonds, and render it possible for American financial institutions once again to underwrite and successfully float new issues, the proceeds from the sale of which will be employed productively and constructively.

Is it merely a coincidence that our foreign commerce expanded with the ex-

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Don't Guess—Analyze

By HOWARD HAINES
Cashier, First State Bank, Kansas City, Kansas

Analyzing Checking Accounts Made Easy By Means of a Chart Which Does Away With Work of Computing Cost in Every Case. Basis for Per Item Charges Suggested Which Enables Smaller Banks to Employ Profitable Methods of Larger Institutions.

IN June I was talking with a group of bankers. None of them were happy.

They said: "The banks have got to make more money!"

"How are you going to do it?" I asked.

"We don't know, but what we want you to do is to analyze the situation and give us some good suggestions."

"I'll do it," I replied, "But first you've got to tell me what to analyze."

"Get us some easy ways to analyze checking accounts," some one said.

Sounded Easy

THAT sounded easy. It was not long, however, until it became apparent that few local bankers had given the subject enough thought to work out good methods. Some accountants had complete and elaborate ways of doing it, but the cost was prohibitive as far as small banks were concerned. It then dawned upon me that this job of finding an easy way to evaluate liabilities was a "heck" of a job! An innate dislike of ever admitting I was too dumb to find a way out prompted me to desperate ends.

I got in my car and went to New York City and walked into the office of the president of one of the biggest banks on Wall Street, and told him how I felt. I said:

"Do you, Mr. Warring, know anything about analyzing accounts?"

"I do not," he said, "but I'll take you down to see our analyzing department."

Down there I was initiated into the secrets of stacks and stacks of forms and statistics, none of which I understood. In answer to my questions the head man referred me to a lady by the name of Biggs and she sent me to another on the eighth floor and he told me confidentially they employed an efficiency expert to work those things out for them and said he would be there the next day.

Dim and Vapor-Like

IN the meantime I went over to Washington to see a widely known accountant and I said:

"I want to know all about float and how to analyze a bank account. Can you tell me about this?"

"I cannot," he replied. "But I have had several inquiries on this recently and I will go into the subject and write you about it."

One-Minute

DESPITE the spread of account analysis many smaller banks have hesitated to undertake a task to which larger institutions bring to bear the full force of their great staffs and wider facilities. To meet the need of the small bank in this respect there is presented here a one-minute chart which is designed to put the country banker on the same scientific footing with his city colleague so far as knowing which accounts pay and which are losing propositions.

While getting in and out of the larger cities I read several articles in the journals about the vague and complicated thing we call float. I wondered if it really was as dim and vapor-like as it was made out to be. Soon it became apparent that all large banks had time schedules for handling float simply and accurately and had had for years, but invariably they went to extreme lengths in their efforts to ascertain the exact cost of paying a check, collecting items, cost of space, light, employees, and what not. This detailed analysis was indeed a complicated process—valuable in its place—but not what I was looking for.

Ideas Were Afloat

"ANALYSIS of accounts," I said to myself, "should be put into operation along the lines of least resistance. The ordinary bank cannot spend so many dollars in trying to find the exact process by which it makes its profits."

Plenty of ideas were afloat—all vague and indefinite. A banker in Buffalo told me they were making a fifty cent-charge on accounts of less than $50 and were making an activity charge on small accounts when the balances did not compensate.

"What basis do you charge on?" I asked.

"Oh, it's largely guesswork," he answered.

So it went—almost every banker had a hunch that some accounts were not profitable. Some reasoned a charge for checkbooks would be sound. Many agreed on a cost of three cents an item for handling checks, one-day items. Some had an administration charge of one cent per item on unusually active checkers. Certain Wisconsin banks have schedules of charges worked out carefully to be applied at the banker's discretion on unprofitables. The catch to that is that many bankers admit they cannot tell exactly which are unprofitable.

The Prize Winner

HOME again! And six weeks gone! The chase looked hopeless. In two weeks I was expected to produce a practical method for determining easily accounts not worth their keep. As a last resort, I wrote 1000 letters to every state in the Union offering $25 for new and original ideas on methods for analyzing checking accounts, or schedules of charges. There came back 528 letters with a big "No" in answer to the questions; fifty-one offered some thoughts on the theory of analyzing—no exact methods; fourteen had germs of ideas; and three brought out the thought that if a chart could be made showing the average loss or profit on accounts of all sizes, it could be quickly applied to any ledger sheet.

That was the prize winning idea. Something of the same kind has been used in South Dakota for some months and is reported effective.

In working out the chart which is presented here, it has been found that some banks can handle items as cheaply as two cents each, while others report the cost as high as five cents. The spread between these figures is due largely to a difference of opinion regarding the distribution of the overhead expenses. The majority feel that three cents per item is sufficient to cover costs. We therefore base our table on this figure. Likewise in considering the

(Continued on page 626)

One Minute Chart for Analyzing Bank Accounts

Shows Monthly Profit or Loss Computed at 5 Per Cent on a Thirty Day Basis

AVERAGE DAILY LEDGER BALANCE		$25	$50	$100	$200	$300	$400	$500	$1000	$2500	$5000	$10000
AVERAGE DAILY LOANABLE BALANCE		$18.75	$37.50	$ 75	$150	$225	$300	$375	$ 750	$1875	$3750	$ 7500
MONTHLY PROFIT ON LOANABLE BALANCE		.07	.16	.31	.63	.93	1.25	1.56	3.13	7.81	15.63	31.25
NUMBER OF ITEMS	COST OF ITEMS											
1	.03¢	.04	.13	.28	.60	.90	1.22	1.53	3.10	7.78	15.60	31.22
2	.06¢	.01	.10	.25	.57	.87	1.19	1.50	3.07	7.75	15.57	31.19
3	.09¢	-.02	.07	.22	.54	.84	1.16	1.47	3.04	7.72	15.54	31.16
4	.12¢	-.05	.04	.19	.51	.81	1.13	1.44	3.01	7.69	15.51	31.13
5	.15¢	-.08	.01	.16	.48	.78	1.10	1.41	2.98	7.66	15.48	31.10
6	.18¢	-.11	-.02	.13	.45	.75	1.07	1.38	2.95	7.63	15.45	31.07
7	.21¢	-.14	-.05	.10	.42	.72	1.04	1.35	2.92	7.60	15.42	31.04
8	.24¢	-.17	-.08	.07	.39	.69	1.01	1.32	2.89	7.57	15.39	31.01
9	.27¢	-.20	-.11	.04	.36	.66	.98	1.29	2.86	7.54	15.36	30.98
10	.30	-.23	-.14	.01	.33	.63	.95	1.26	2.83	7.51	15.33	30.95
15	.45	-.38	-.29	-.14	.18	.48	.80	1.11	2.68	7.36	15.18	30.80
20	.60	-.53	-.44	-.29	.03	.33	.65	.96	2.53	7.21	15.03	30.65
25	.75	-.68	-.59	-.44	-.12	.18	.50	.81	2.38	7.06	14.88	30.50
30	.90	-.83	-.74	-.59	-.27	.03	.35	.66	2.23	6.91	14.73	30.35
40	1.20	-1.13	-1.04	-.89	-.57	-.27	.05	.36	1.93	6.61	14.43	30.05
50	1.50	-1.43	-1.34	-1.19	-.87	-.57	-.25	.06	1.63	6.31	14.13	29.75
100	3.00	-2.93	-2.84	-2.69	-2.37	-2.07	-1.75	-1.44	.13	4.81	12.63	28.25
200	6.00	-5.93	-5.84	-5.69	-5.37	-5.07	-4.75	-4.44	-2.87	1.81	9.63	25.25
300	9.00	-8.93	-8.84	-8.69	-8.37	-8.07	-7.75	-7.44	-5.87	-1.19	6.63	22.25
600	18.00	-17.93	-17.84	-17.69	-17.37	-17.07	-16.75	-16.44	-14.87	-10.19	-2.37	13.25
800	24.00	-23.93	-23.84	-23.69	-23.37	-23.07	-22.75	-22.44	-20.87	-16.19	-8.37	7.25
1000	30.00	-29.93	-29.84	-29.69	-29.37	-29.07	-28.75	-28.44	-26.87	-22.19	-14.37	1.25

Note: Average daily float should be subtracted from ledger balance. On most small accounts float need not be taken into consideration.

THE use of this chart or any other method of analyzing will familiarize you with the principles of analysis. When these are well understood it is not difficult to determine which accounts cause the losses. The business of any customer is, as a rule, consistent regarding the number of checks drawn or the number of items deposited.

To arrive quickly at the profit or loss of any account by means of this chart: First, Count the number of checks paid or collected. Second, Find the average daily balance and deduct from this the average daily float. On small accounts float is very slight and need not be computed. You now have the net balance of collected funds. Third, Run your pencil down and across the chart to where the columns meet. The figure there indicates the profit or loss.

EDITORIAL

Mr. Mellon Agrees

SECRETARY MELLON takes a conservative stand on branch and group banking. He has declined to be hurried on the question. Elsewhere in the JOURNAL his views are presented, taken from his annual report submitted to Congress on December 4, Mr. Mellon favors a very careful study of the new trends in banking and expresses the hope that there will be no hasty legislation. The attitude of the Secretary toward branch and group banking is strikingly similar to the position taken by the American Bankers Association at its recent Convention in San Francisco.

Treasury Patience

A TREASURY circular late in November paved the way for the first invitation for tenders for the new form of government securities, "Treasury Bills," authorized by an amendment to the second Liberty bond act approved June 17, 1929.

These bills are to be sold at a discount at the highest prices received from competitive bids. Heretofore all government financing has been by means of securities bearing a fixed rate of interest determined by the Treasury.

The Treasury seems to have been rather slow in making use of the new financing medium provided by Congress. But its delay merely serves to emphasize the primary advantage to the government of this form of borrowing.

Last summer when Congress empowered the Treasury to sell bills at a discount there was a runaway stock market. There was also a runaway stock market's twin brother, skyrocketing rates for money. Customary government financing reflected this condition.

Had the Treasury attempted to sell bills at a discount as soon as it had obtained the enabling legislation the market would have made the government pay for money. By waiting six months the Treasury is inaugurating its new system at a time when the government can get the greatest benefit out of what for the United States is a novel method of raising funds.

Business Mergers Without a Market

CONSOLIDATIONS and mergers in the field of industrial and commercial business have become so commonplace that mere size no longer attracts attention. The public has accustomed itself to what has been regarded as the trend of the times.

During the last two or three years there has been a great deal of discussion and interpretation of the merger movement. Much has been said of competition, of efficiency, of economy and of countless other factors which are supposed to attain their full bloom only in the largest organizations.

Less was said of the undeniable fact that conditions in the stock market during these last two or three years have made it possible to sell new securities at very attractive prices. Just how much the ease with which securities could be marketed has had to do with the merger movement is soon to be revealed.

A very different situation now exists in the stock market. Mergers and consolidations of business interests may not come so rapidly for a time. The urge to merge enterprises has, temporarily at least, lost the urge to float securities.

Are Safe Deposit Rentals Fair?

BANKING has been gradually getting away from pre-war prices. Service charges, per item charges and scientifically determined rates are ridding banks of old fashioned habits which fixed pre-war prices for valuable services at levels that were frequently not equitable charges but the giving of something for nothing.

Management is now compelling the adjustment of the charges for all of the myriad services of a modern bank to the point where they produce a reasonable return. The safe deposit department however appears to have received little attention in this general readjustment.

The safe deposit box is one of the very few things that maintains pre-war prices. On the average, safe deposit boxes rent for about the same now as they did fifteen or twenty years ago.

The smaller institutions, operate safe deposit departments chiefly as a customer accommodation and as business getters. In such institutions the investment in real estate, equipment and overhead is nothing like that of the larger banks. But costs have increased in the smaller as well as the larger banks.

An inquiry into the rentals charged for safe deposit services in various parts of the country is being made by the national advisory council of the state safe deposit associations. Its findings when completed may disclose a surprising prevalence of pre-war prices for rentals. Meanwhile it would seem that many smaller banks who may not be represented in the safe deposit field could with profit apply the principles of scientific management to this branch of their business.

Analyze the department, bring in all the costs; consider all the liability and determine absolutely if present rentals are equitable.

The Lion's Share

STOCKHOLDERS of the Federal Reserve Bank of Boston at their annual meeting in November, unanimously adopted a resolution favoring an amendment to the Federal Reserve Act to reapportion the division of the net earnings of reserve banks.

The Boston plan proposes that after payment of expenses and 6 per cent dividend to member banks, the remaining net earnings should be divided as follows: 25 per cent to the Federal government for taxes, 50

per cent to member banks and the remaining 25 per cent to be paid into surplus until the surplus equaled the subscribed capital. Any portion of the 25 per cent not needed for the creation of the 100 per cent surplus would be paid to member banks.

This proposal seems eminently fairer to member banks than the present arrangement for the distribution of reserve bank earnings. The law now provides that after the payment of the expenses of a Federal reserve bank, member banks are entitled to a 6 per cent dividend. But after dividend claims have been met the remaining net earnings are payable to the United States Government as a franchise tax, except that the whole of such excess earnings are payable to a surplus fund until that fund amounts to 100 per cent of the subscribed capital stock and that thereafter 10 per cent of any excess earnings above dividends would continue to be paid into surplus account.

The Boston plan seems to be a more equitable arrangement than is provided by the law as it now stands. It merely suggests that the member banks share with the government in the excess earnings of reserve banks over dividend claims and surplus accumulations. Under the present scheme after a reserve bank builds up its 100 per cent surplus the government would take 90 per cent of all excess earnings.

Of course the principal argument advanced against the distribution of a greater proportion of reserve bank earnings among member banks is based upon the theory of the Federal Reserve Act. The reserve banks were not designed as profit producing institutions. Nor does anyone want the reserve banks to feel that they must produce profits and go into business in competition with their member institutions.

Nevertheless it would seem only fair that if the reserve banks do show substantial earnings as a result of operating conditions the member banks should be entitled to the lion's share. Usually it is only in wartime that governments impose super-taxes of the character provided for reserve bank earnings.

The question of the distribution of reserve bank earnings can be considered entirely as a tax matter, leaving out entirely any thought of the probable effect of more equitable distribution upon the membership roll of the system. The Boston plan will be very hard to combat as a proposal for just taxation.

The Business Making Conference

COMING to a crisis in the slump of the stock market, we have witnessed a series of spectacular economic phenomena for which it is not easy to find satisfactory comparisons, and they in turn have produced a series of business conferences without parallel.

First there was the long drawn-out period of security buying stubbornly continued in opposition to the advice of those whose experience and financial judgment entitled them to an opinion; continued, too, in the face of simple arithmetic which demonstrated that many prices were beyond reason.

Then there was the long-looked for decline against which, notwithstanding its magnitude and velocity, the basic business of the country stood up grandly.

And now there are being set in motion forces which it is hoped will give stimulus to basic business.

In the big boom there was an unconscious dependence upon something akin to legerdemain. In the grand program of buttressing and extending general business there is cool calculation, engineering and business exactitude. Foolish hope was too often the base of speculation whereas in the rehabilitation program as planned there is literally a tremendous base of useful work, of concrete and stone, iron and steel.

In other times many diseases of the body were accepted like visitations of an angry Providence from which there was no escape, but through years of patient investigation and keen observation, intelligent action instead of dull resignation, science has found the means to prevent much suffering. Even in recent times there also was comparable submission and resignation to what seemed to be the inevitable when business became ill, but in the present time intelligent action is supplanting inactive waiting.

The forces set into operation by the Hoover conferences should provide additional employment and safeguard present employment, but neither this nor any other program can provide for the individual prosperity of people who will not keep their feet on the ground. Personal and sales conduct of unrestrained, unbridled optimism, may not be the best way to help.

We have seen the damage that forced draft, long continued, has done through the stock market.

Let not the potential possibilities of the constructive work now being planned through the industrial leaders of the nation be hampered by too intense an application of the forced draft upon the pocket books of the workers.

In Opposition to Group Banking

AT a joint session of bankers "representing the McKenzie, Mountrail, Divide and Williams County (North Dakota) Association" there was recently adopted a set of resolutions two of which give an insight into a country bank concern that is widespread. The remaining resolution refers to a problem at present confined to North Dakota but likely at any time to confront bankers of other states.

The association is opposed to "branch group banking." It asks its state association to consider ways and means of protecting the interest of "the independent bankers of the state and those of the citizenship in general," and records its desire "that such legislation be brought about as will enable the Bank of North Dakota and the independent banks of the state to work in such harmony and cooperation as will enable both the private banks and the Bank of North Dakota to render more definite service to the public in general."

Just as the group banking movement concerns many independent bankers the country over so do the operations of the building and loan associations and the sentiment of the bankers of this group on that subject was expressed in a recommendation that legislation be brought about so that "the now existing unfair situation between banks of this state and the building and loan associations be corrected."

The menace of the guaranty law fallacy is not ended in North Dakota for though the law was repealed, the repeal is not finally effective until the referendum rights have been exhausted. Whether, therefore, the law stands, or follows the way of other guaranty laws in other states depends upon the outcome of a vote in June. Hence a third resolution sets forth opposition to the law and suggests means of getting the facts before the voters, which bankers everywhere hope will be done so thoroughly that the people of no other state may be misled.

Liability Insurance for Depositors

By HARWOOD B. DOLBEARE
Associate Professor of Finance, University of Florida

Double Liability of Bank Stockholders Called Inadequate to Provide Complete Protection for Depositors in Light of New Developments in Banking Field. Effect of Growth of Holding Companies and Wide Public Distribution of Shares Discussed.

THE people of the United States are said to have a passion for regulation. Law after law is passed, requiring a man to do this and that, forbidding him to do thus and so. Business also is not forgotten, for there are many statutes regulating enterprises in general, and certain industries in particular.

Banking probably has the dubious honor of being the object of a greater volume of regulative legislation than any other line of business activity. In most states it would seem that the depositor is now protected by legislative enactment as adequately as it is necessary.

Removes Temptation

FURTHER protection should come from other sources. Adequate enforcement of statutes is as necessary as adequate laws. Intelligent, helpful, non-political bank supervision and examination offers the depositor more real security than the strictest law inadequately enforced. In many states there is an opportunity for progress in this direction.

Another means of obtaining for the depositor added protection is such a campaign or program as was conducted during the past year by the American Bankers Association for the promotion of better bank management.

An adequate return upon the banker's investment reduces, if it does not remove in all cases, the temptation to resort to policies which would jeopardize the depositors' interests. Continued effort of this nature to encourage sound and progressive bank management probably affords the greatest source of additional protection that has not yet been sufficiently utilized.

Additional Security

THERE still remains the opportunity, however, to give the depositor certain additional security through legislation. Not all the sections of the banking law are so effective as was originally expected. For instance, a common provision of the banking law imposes double liability upon the owner of bank stock; yet a bank commissioner writes, ". . . our experience in the collection of double liability has not been such as to lead us to the conclusion that it offers real protection to the depositor."

How can double liability be made

Florida's Plan

THIS is a critical analysis of the new Florida law which requires banks to set aside a reserve fund for meeting stockholders' liability. While the plan now being tried out in Florida appears to be far from perfect and serious defects in the measure are pointed out, nevertheless the conclusion is reached that a move is being made in the right direction which is thought to be away from reliance upon the customary provisions of double liability.

more effective? An act passed at the recent session of the Florida legislature offers at least a partial solution. The greatest weakness found in the liquidation of the banks that closed following the collapse of the real estate boom in Florida was the lack of success of the state banking officials in collecting stockholders' double liability. Only a small proportion of the total assessment could be collected.

Such an experience has been common in other states, and the latest report of the Comptroller of the Currency states that only 48 per cent of the assessment upon stockholders had been collected in the 712 receiverships of national banks terminated during the existence of the national bank system. Such figures as are available in certain states, together with the results secured in the case of the national banks, indicate that the enforcement of double liability has been, on the average, but 50 per cent effective.

Why has double liability not been more effective and productive? The primary reason has been that all too often the majority stockholders have been insolvent themselves. This situation has been common not only in Florida, but in other states. When the majority owners were also officers or directors, and were honest and sincere, they often had used all their private means in trying to avert the closing of the bank. When they were dishonest, there was very little upon which the receiver could lay his hands. Where the majority owner was a "soulless" corporation, the chances of collecting an assessment were quite remote. In comment on such a situation former Commissioner Will C. Woods of California has written:

> "The law has demonstrated the fact that majority ownership of bank stock by a corporation will defeat the purpose of the statute, for the reason that the bank will not be permitted to fail by the holding corporation until that corporation is itself insolvent, at which time no benefits can accrue under the law to the creditors."

The essence of the plan adopted by Florida is to create and set aside in advance a reserve fund to be used in meeting stockholders' liability. This new law provides that, after a bank has carried 10 per cent of the net profits of a semi-annual period to surplus until surplus at least equals capital stock, and after dividends upon stock have been paid at such a rate, not to exceed 10 per cent per annum, as seems expedient, one-half of the remaining undivided profits "shall be invested in Federal, state, county, municipal or sub school district bonds." These bonds shall be deposited with the State Treasurer until the total deposit equals the amount of the capital stock. The bonds are to be "a Stockholders Reserve Fund Deposit to fortify and strengthen their (the stockholders) statutory liability, to be withdrawn and used therefor only upon approval of the comptroller as conditions require." As is the case with surplus, this reserve fund deposit must be restored in the same manner as accumulated if, for any reason, it is reduced below the amount of the capital stock.

A Painless Process

SUCH a method of assuring the depositor added protection against loss has been urged because it is a painless process for the stockholder, in that the fund may be built up without depriving him of a fair income. While this is true,

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BROOKMIRE

BANKS...and BUSINESS

OUT of the collapse in security prices has arisen a situ ation filled with larger opportunity than at any time since 1921. *Sound judgment will be rewarded in far larger measure than at any time for years.* But, keen and searching analysis will be required to uncover the industrial and investment situations of greatest merit. ¶ The Brookmire organization is particularly qualified to serve and serve well at this time. It has studied the course of American business for more than 25 years. Its conclusions regarding security values are built around fundamental research. Its advice is founded only on basic information. *It is such advice and only such advice that is of dependable value to banks and individuals.* ¶ Through Brookmire Service, banks receive specific supervision of the investment of their reserve funds. They are provided, too, with a specialized source of counsel which they utilize in advising depositors

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Safeguards of Prosperity

By PROF. GUSTAV CASSEL

American Economic Developments of Future and Prospects for Business Stability Viewed With Confidence Despite Break in Stock Market. Faith in the Federal Reserve System is Voiced. Maintenance of Prices at Present Levels Considered Vital.

As Viewed Abroad

WHAT may fairly be called the informed European view of the situation in the United States following the slump in security prices is presented here by Prof. Cassel, one of the best known foreign economists.

Writing from Sweden on Nov. 16, this eminent observer discusses what he regards as a signal service rendered by the Federal Reserve System that "will prove to be of the highest value for all countries and for all future time."

A LONG period of fantastically exaggerated stock exchange speculation solely based on expectations of a continuous rise of earning power had resulted in a rise of stock prices to a level where a normal earning of interest on capital invested was absolutely excluded. Finally it became clear that the tide had passed its peak.

The result was a drastic reduction of stock exchange quotations and now a gradual adjustment of these quotations to a new paying level is what we have to expect. This natural reaction is after all only a movement on the surface and it is of paramount interest to know how the real economic life of the country has developed in the corresponding time, what are the real conditions of production and trade at the present moment and their prospects for the nearest future.

Rising Tides

THE statistical figures show that the United States has gone through a period of unusual prosperity. From the end of 1927 industrial production has moved in a rising tide culminating in the middle of 1929. In fact, the Federal Reserve Board's index of industrial production, based on 100 as average for 1923-25, rose from 100 in December, 1927, to a maximum of 126 in June, 1929.

Thus industrial production has increased on an average by not less than a quarter in so short a time as one and one-half years. As usual in such rising tides the development has been particularly strong in the iron and steel industries and in the cement, brick and glass industries, the index figures for these groups having been brought up to 155 and 134 respectively for June, 1929. Still higher figures are shown by the automobile and connected industries which no doubt have had an important part in this extraordinary development of industrial activity.

What we here have before us is in fact a regular rising tide of the cyclical movement of trade. The essence of such a movement is an extraordinary growth of production of real capital, that is to say of construction of all descriptions, house and factory building, production of railway-equipment, automobiles, ships, etc. All this real capital must be taken over by the fresh savings of the community. The development can therefore only go on as long as fresh savings are forthcoming to a sufficient extent. When the production of real capital is carried so far that available savings do not longer suffice to buy all the real capital produced the rising tide must come to a standstill.

A Scarcity of Capital

IN the present case the growing production of real capital has been supported by a very remarkable growth of savings. This is clear from the statistics of capital issues which have surpassed all previous records. These figures, however, only represent a part of the nation's savings and if the aggregate sum of these savings for the period in question could be given in a figure it would doubtless make a very strong impression of national prosperity and saving capacity.

Nevertheless, the savings have proved to be more and more inadequate for supporting the demand. The first sign of an increasing scarcity of capital was the sharp reduction in the issue of new capital for the account of foreign countries. For the first half of 1928 the total of these issues amounted to $941,000,000, but for the two following half-years the sum was reduced to $385,000,000 and $566,000,000 respectively. For July, 1929, the United States could only spare $44,000,000 and for August only $39,000,000 for foreign countries. The acute scarcity of capital also made itself felt in rising rates of interest and in a marked fall of bond prices.

When savings became insufficient to support the immense creations of new real capital a break of the rising tide was unavoidable and production of real capital had to be restricted. As usual this restriction first took place in building for residential purposes. The index of building contracts showed some weakness by the end of 1928 and in the first half of 1929. In August, however, the figure reached the unusual height of 156, but for September and October it fell down to 107 and 105 respectively. In the autumn restrictions followed in the automobile industry and the iron and steel industries.

Prices Failed to Rise

WHAT America has gone through is so far a quite regular cycle of prosperity and restriction. In one respect, however, this trade cycle has been quite unique. It has not been accompanied by any rise of the general level of commodity prices. In all previous cases such a rise in prices has been a very conspicuous feature of the rising tide.

For instance during the boom of the first part of the Seventies the Sauerbeck's index of wholesale prices for Great Britain was carried from 96 in 1870 to 111 in 1873 and thrown back to 96 in 1875. At the same time the group "Minerals" showed an increase from 89 to 141 and thereupon a reduction to 101. Similarly the wave of prosperity at the end of the century carried the general level of prices in the period. 1896-1900 from 61 to 75 and the index of minerals from 63 to 108.

In the present case nothing of that kind has occurred. The general index of commodity prices of the United States Bureau of Labor statistics computed on the basis of 100 for 1926 never rose to more than 100.1, which was in September, 1928. For the most part of the period it stood in the neighborhood of 97 and for August, 1929, it was 97.7. The group "Metals and metal products" has shown a slight increase up to a maximum of 106.4 for March and April, 1929. For August, however, the figure was down to 104.3. For building materials

the index reached a maximum for March of 98.8 and was down in August at 96.7.

No Deflation Required

THIS is indeed an extraordinary experience. A regular and strong tide of industrial prosperity coupled with the most complete stability of commodity prices! From the fact that prices have not been inflated during the rising tide the very important result follows is that now no deflation is required. The level of commodity prices must be regarded as quite sound as it is and this gives a great strength to the present industrial situation.

Economists have given much attention to the question of why rising tides are regularly accompanied by a rise of the general level of prices. Some authors have held that such a rise was solely due to the action of the central bank which supplied the country to a too liberal extent with means of payment. With a more restrictive policy, they have said, it would always have been possible to keep the general level of prices constant and to avoid stimulating the boom that follows from a too abundant supply of means of payment.

Other authors have not been willing to go so far. They have believed that the upward movement of the trade cycle in itself possessed a power of raising the general level of prices and that it was impossible for a central bank to resist this power. However, it is clear that rising prices, particularly during a time of increased industrial activity, require a more abundant supply of means of payment, and if this supply is not forthcoming the rise of prices must come to a standstill.

The First Decision

THE experience of the United States of the rising tide that has now come to an end has given the first practical decision in this very important question. As a matter of fact the Federal Reserve System has succeeded in so restricting its supply of means of payment that an enhancement of the general level of prices has been avoided. This very remarkable result has been attained by an administering of the rates of discount and of the supplementary means of credit policy that has been completely justified by its results.

The Federal Reserve System has been criticised for its reduction of the rate of discount to 3½ per cent in August, 1927. It has been said that the system thereby gave the first stimulus to the great period of stock exchange speculation. The business of the Federal Reserve System is, however, to supply the country with means of payment to such an extent that the general level of commodity prices is kept as stable as possible.

Now in the summer, 1927, the price index had come down to 94 and it was the obvious duty of the Federal Reserve System to take measures to bring back the price level in the neighborhood of the normal figure of 100. With more reason the system may be criticized for not having reduced the discount rate in March when the downward movement of the price index was already manifest enough. However, the effect of the reduction of the discount rate was a rise of the general level of prices.

A Service to American Economy

DURING 1928 the rise proved so strong that it was necessary to raise the bank rate repeatedly. In July, 1928, the New York Federal Reserve Bank raised its rate to 5 per cent, and this rate was sufficient from October onward to keep the commodity price index between 96 and 98. Thus on the whole the credit policy of the Federal Reserve System has proved to be correct.

No doubt it may be said that the aim of the system has not been to stabilize the general level of commodity prices but rather to fight the stock exchange speculation. Banking policy, however, should be judged according to its results rather than to aims that may have been expressed by its leaders. As a matter of fact, the Federal Reserve System has proved, for the first time in economic history, that a central bank has the supply of means of payment so completely under its control that it is perfectly able to prevent a rising tide of industrial prosperity from causing any inflation of the currency. By this very remarkable accomplishment the Federal Reserve System has not only done a great service to present American economy but also set an example which will prove to be of the highest value for all countries and for all future times.

Speculation Was Checked

IN comparison with this great achievement it is of secondary importance that the attitude of the Federal Reserve System with regard to stock exchange speculation has been a mistake. It is fundamentally a mistake of a central bank to try to regulate stock exchange business. A central bank has no other function and should never for a moment contemplate taking over any other function than that of keeping the purchasing power of its currency in regard to commodities at the highest possible stability.

Any attempt to do anything more must either result in failure or lead the policy of the central bank in a false direction. In the present case the attempt to regulate the stock exchange has failed in the most manifest manner.

Already in the spring months of 1928 when the rise of stock prices in New York was still very moderate and when the much discussed brokers' loans did not amount to more than $4,900,000,000, it was said that the whole power of the Federal Reserve System should be used for stopping speculation. People did not imagine then that speculation would go on for another one and one-half years, or that a level of stock prices that was thought to be dangerously high when in April, 1928, it reached the figure 146 and in May 152 would be driven up to not less than 227 in August, 1929, or that brokers' loans would rise from $4,900,000,000 in April, 1928, to $7,900,000,000 in August and $8,500,000,000 in September, 1929!

When finally speculation was checked it was a result, as has been said in the foregoing of the fact that the boom had reached its end owing to the impossibility of procuring savings enough for the demands of a growing construction of real capital. People are wrong, therefore, when they accuse the Federal Reserve System of having caused the breakdown of the stock exchange by artificial credit restrictions.

Must Follow Suit

IN reality the Federal Reserve System has not brought about the scarcity of capital in the country and has not raised the rates of interest on capital. In its discount policy it has only registered the actual scarcity of capital which has resulted from the economic development. It is precisely by truly reflecting the actual conditions of the capital market that the Federal Reserve System has succeeded in keeping the general level of commodity prices unaltered. Had the system raised its discount rates too much or otherwise applied a too great stringency in its credit policy the result would have been a fall of the general level of prices.

We may conclude therefore, that the restrictions of the Federal Reserve System have gone exactly so far as was necessary for the stability of the purchasing power of the dollar. The ultimate collapse of the stock speculation is then not a work of the Federal Reserve System.

Now, when American economic life has attained a period of relative standstill and when therefore the demand for savings has been reduced to moderate proportions it is of the highest importance that the Federal Reserve System should immediately adjust its credit policy to this new situation. The natural rate of interest on the capital market will now probably fall, perhaps to a level below what is usually regarded as normal. The Federal Reserve System must follow suit. In fact it has already begun to do so, the New York discount rate having been reduced immediately from 6 to 5 per cent and thereafter to 4½ per cent. Very likely it will soon be possible for the system to go down still further. The only index that can show the right way is the index of commodity prices. Should it manifest a tendency to fall such a tendency must immediately be counteracted by a more liberal credit policy from the Federal reserve banks.

Assuming that such a policy is going to be carried through we may look with confidence on the prospects for the future economic development of the United States.

The BANKER'S Interest in Distribution

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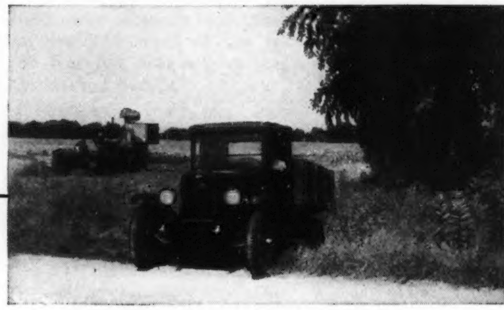

A Thousand Farms without a Horse

In 1910 many men still held out against the *horseless carriage.* But those who did were looking backward. They could not keep the horse on the highways. *Nobody* could! Today all the world rides on rubber. Men and their merchandise travel swiftly by *motor power.*

It is the same on the farms. We have seen the passing of the tools of hand harvest, the oxcart, the walking plow, and many other things that bring back memories of slow labor and profitless toil. Old methods make way for methods that are *better, faster, easier, more economical,* and *more profitable.*

Animal power cannot handle the big-scale equipment the farmers are buying these days. Day by day animal power is passing out of the picture. Everywhere the great and tireless tractor is taking over the work, cutting down the costs of production, and increasing the profits. Already a thousand horseless farmers handle every operation by *McCormick-Deering power alone.*

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"Good Equipment Makes a Good Farmer Better"

The Big Five Banks of Japan

By HOMER JOSEPH DODGE

Japanese Banking Ruled by Group of Five Great Institutions Created by Feudal Families Whose Descendants Still Control. Concentration and Amalgamation Has Gone Further in Orient Than in United States but Without Participation of Public.

AS in England a Big Five group of banks rules British banking, so also a Big Five has come to dominate the field in Japan. Over a period, beginning in 1872, banks employing occidental methods have risen, declined and disappeared. Now five institutions control and all but one are survivals of old systems of trading and money changing.

The rise of this Japanese banking power is distinctly reminiscent of the concentration in England and was brought about in the same manner; that is, through a series of amalgamations and absorptions based on an early and sound nucleus. A similar concentration in the United States has to some extent been averted because of the much larger number of banks here. American bank mergers have been important this year but, in proportion, less striking than in Japan. In the first six months of 1929, fifty-four banks were eliminated, the strength of them chiefly going to augment that of the Big Five. Doubtless the process will continue.

"Ordinary Banks"

IN order of their size, the Big Five of Japan are the Mitsui Bank, the Mitsubishi, the Dai-ichi, the Sumitomo and the Yasuda.

There are 1,031 "ordinary" banks in Japan. The term "ordinary" is employed in Japanese banking parlance to denote commercial banks as differentiated from state controlled institutions such as the Bank of Japan, the Yokohama Specie Bank and the savings banks. Taking all classes of banks together, it is found that the Big Five hold 26 per cent of all Japanese deposits. There is a second line group of very large banks and if the deposits of nine of these be added to those of the Big Five, it is found that the fourteen institutions hold 43 per cent of Japan's deposits of all kinds.

Eliminating the government controlled banks and the savings banks and comparing purely commercial banks, the Big Five show 34 per cent of deposits. In other words, five banks hold more than one third of the commercial deposits and 1,126 hold two thirds. Again add the next nine and fourteen banks are shown to hold 54 per cent or more than half while 1,126 banks hold less than one half.

In yen, the total deposits of all special or government controlled banks, including the Bank of Japan, are 1,581,000,000. Deposits of savings banks amount to 1,241,000,000 yen. Deposits of "ordinary" banks are 9,216,000,000 yen and of these the Big Five hold 3,130,000,000 yen. The percentage proportions therefore stand as follows: special banks, including the Bank of Japan, 13.13; savings banks, 10.31; ordinary banks, 76.56; the Big Five, 26 per cent. It will be noted that the Big Five have twice the deposits of the government controlled banks.

The concentration is even greater in England so far as the holding of deposits is concerned. At a comparable recent period, the British Big Five held 67 per cent of all the deposits of the United Kingdom.

The Big Five banks of Japan maintain branches throughout the Japanese Empire and also have offices in principal cities of the world. The numbers of their branches do not, however, reach into the many hundreds as in the case of the British Big Five.

The figures indicate fairly clearly the degree of domination which is in the hands of a very small group of banks but how concentrated that domination actually is can only be fully understood from a realization that most of the Big Five are owned, not by corporations having thousands of stockholders, but by families, the business having come down from fathers to sons through many generations.

Feudal Responsibilities

IN May, 1673, Takatoshi Mitsui opened a drapery and general store at Yedo Port (now Tokyo). In those early days such commercial houses were places of exchange for money but only a few were permitted to handle gold and accept deposits. Mitsui faithfully attended his store, handling subsidiary silver for ten years before he was admitted to membership among the established exchangers doing a business nearest comcomparable, for the time, to modern banking. It was like getting a seat on the New York Stock Exchange—perhaps more difficult because feudal family prerogatives were involved. But store and exchange business prospered and branches were opened at Kyoto, the old capital city, and at Osaka, the great trading center.

Not alone in banking but in most other businesses in Japan, there is recognized a feudal sort of responsibility which is hereditary. When a branch of a family bank or other business is opened, a member of the family is put in charge. The Mitsui followed this custom and thereby prevented any of the gains of their enterprise escaping to hostile and competitive hands. And the members of the Mitsui family appear to have been especially enterprising. They pushed their freshly acquired banking business with energy and enlivened it, increased its usefulness and dependence by innovation and scrupulous honesty, policies known to bear good fruit even today in Wall and Threadneedle Streets.

Invented Wrapped Money

THE American baker who first took soda crackers out of an open-topped barrel, and packaged them neatly, enhanced his reputation and augmented his fortune. The Mitsui invented wrapped money with equally gratifying results.

Coins to a certain value, known to constitute convenient commercial units, were wrapped in stout paper with the meticulous care and taste characteristic of the Japanese, who ever have liked a dash of the artistic with their commerce. These little packages were conspicuously marked with the value of the contents and actually autographed by the head of the House of Mitsui.

There can be little doubt that, in the beginning, many a fellow-banker or tradesmen or customer quickly broke the seal and counted the contents so soon as he was courteously out of sight, but inasmuch as actual count never belied the inscription, the packages themselves soon began to circulate at face value.

This was most excellent business. Mitsui currency stood apart from all others and had the effect of greatly enhancing the prestige of the house. So much so that in 1691 the House of Mitsui was selected by the government to handle transmission of funds between Osaka and Yedo.

"Lay Aside Silver"

THE Mitsui were as ingenious in their bookkeeping as in their handling of currency. Those early books are extant and indicate that no different methods were used, basically, than are employed today in the Occident and it must be borne in mind that, in those days, Japan held no communication with the outside world. Under a symbol meaning "shop's foundation" is to be identified working

capital; "cellar silver" or "lay aside silver" is found to be the entry for reserve.

So the House of Mitsui flourished down through the generations, banking for the Shoguns who then ruled the state with the Emperor merely a figurehead, and extending their dealings far and wide. Then, in 1868, came the Restoration. There had been civil war and in a period of splendid unrest the Emperor recaptured the full imperial powers after 200 years of suppression. He immediately levied a loan upon the Mitsui together with other bankers and merchants.

It was absorbed by them and the House of Mitsui, with two others, was charged with the responsibility for the exchequer, at first a burdensome task because it involved providing funds out of their own coffers if they could not get them from other sources. The Emperor merely looked to them. But the House of Mitsui, exercising the leadership, won through, thereby gaining a tremendous standing with the throne and the nation.

Under Imperial Auspices

THE Mitsui by this time were looking eastward to the Occident and thinking about modern banking systems. They learned much by observation and negotiated, for example, some "convertible treasury notes" for the government. Five young Mitsuis were sent in 1872 to the United States for the purpose of studying American banking methods. Next they petitioned their government for permission to establish a bank and although this was refused they proceeded, nevertheless, to the erection of a banking house.

The refusal of a bank charter appeared to have been inspired by a desire on the part of the government to have a hand in the matter and the Mitsuis were persuaded to join the Ono-gumi in establishing a national bank at Tokyo under imperial auspices. This was accomplished in June, 1873. It is interesting to note that the institution was housed in the new Mitsui edifice. But the Mitsuis did not give up hope for a bank of their own and in 1876 received permission to found a private bank of unlimited liability. This was the Mitsui Bank. Taking over the exchange business of the old House of Mitsui, the institution opened thirty branches all over the kingdom and realized the family ambition to become a national banking power.

Three quarters of the capital stock of the Mitsui Bank was held in the family and the remainder was allowed to be taken up by the servants of the family in pursuance of the ancient feudal idea. The public participated not at all, as Japanese servants are part of a great feudal family in all save blood.

A Heavy Blow

WHETHER from jealousy of this new banking power or some other cause, the government soon founded the Bank of Japan and took away the government deposits and fiscal business which had been entrusted to the Mitsui Bank. This was a heavy blow but the bank survived, reorganized and expanded. The foreign field was entered and Barclay and Company in England was appointed Occidental correspondent. This fact is more than a little interesting. Barclay and Company was the predecessor of Barclay's Bank, one of the Big Five of Great Britain. Alone among the London Big Five it, like the Japanese banks, is a family institution, having arisen from the amalgamation of several private banks owned by Quaker families (contemplative in religious observance like the orientals) which were closely allied by marriage.

Then began a period of large underwritings and general branching out. The World War brought still greater expansion and, in 1919, the capital was increased from 20,000,000 to 100 000,000 yen. The public was allowed to subscribe 300,000 yen but at a premium of 45. All the rest is Mitsui stock.

In Japan, modern affairs date from the earthquake of 1923. The tragic loss of life and property is black history, but the Mitsui Bank emerged sound. In 1927 came a further national blow in the form of a sweeping financial panic. The Mitsui weathered this too. Today the Mitsui Bank stands at the head of the Big Five of Japan with assets of close to 1,000,000,000 yen. Its head office at Tokyo was utterly demolished in the earthquake. The new edifice is one of the most magnificent in the Orient and its main banking lobby the largest counting room in the world.

Expanded in Many Lines

SECOND in size among the Big Five comes the Mitsubishi Bank. In the days of the Shoguns, the Lord Yode Yamanouchi established at Osaka a clan company, seemingly more military than commercial in nature in that its business was the convoying of merchandise between trading centers to protect it from bandits. Impreceptibly the convoy seems to have assumed the trading business itself and continued operations until 1870 when Yataro Iwasaki acquired the entire enterprise. It remains in the Iwasaki family.

The enterprise was immediately extended to shipping for at that time a brisk overseas trade had sprung up. In 1875 an imperial charter was obtained for the Mitsubishi Steamship Company by the family of Iwasaki. Mining and manufacturing also were entered upon and finally the banking business. In 1884 when the government divorced its own business enterprises, the Mitsubishi Company acquired from it the Nagasaki Shipyards. In 1885 control of the One Hundredth and Nineteenth Bank was obtained. Then followed expansion in many lines with the result that Mitsubishi companies are engaged in shipbuilding, engineering, iron and steel, warehousing, trading, mining, marine and fire insurance and electrical and internal combustion engine building. A holding company, controlled by the Iwasaki family, dominates the whole vast fabric.

Bankers to the Shoguns

THE Dai-ichi Bank stands third. It is that same first national bank established by the Mitsui and the Ono-gumi interests at the behest of the Imperial government. In 1896 it became a private bank. Starting with the government and the Mitsui interests behind it, it grew speedily and held its strength after going into private control. The Imperial Household Department is a stockholder.

In the Nineteenth Year of the Tensho Era, about 1591, the House of Sumitomo was flourishing as refiners of copper and precious metals. It is said that the secret was learned from a Dutch trader cast ashore on Sumitomo lands. In the earliest days of the Shogunate, the Sumitomos were rich, the family making money advances to the great feudatories of the land and engaging in trade at Osaka where the head office of the Sumitomo Bank is located, the only one of the Big Five with headquarters elsewhere than at Tokyo.

Perhaps it was because they had been bankers to the Shoguns, the nobles who had held the Emperor stripped of power for two centuries but, at any rate, upon the imperial restoration in 1868, the Sumitomo held aloof from the government and did not participate as fiscal agents or in any other capacity in affairs of state, services which hastened the rise of the other banks of the Big Five group.

Traded in Bonito and Eggs

THE Sumitomo Bank, fourth in rank, along with a large number of other enterprises, is dominated by a holding company owned by the Sumitomo family which is reputed to be immensely rich. Although the Sumitomo Bank is capitalized at 150,000,000 yen and great enough to be among the Big Five, yet it is but an item in Sumitomo wealth.

The family's mining prosperity dates back far and includes such rich deposits as the famous Besshi Copper Mine, first exploited in 1691. Other interests include warehousing, steel works, copper works, wire and cable factories, fertilizer plants, building construction, collieries, insurance and hydro-electric power. During the 1927 panic, other banks were absorbed by the Sumitomo and the family also has gone into railways.

The Yasuda Bank stands fifth of the Big Five. The founder, Yasuda, was carrying on a small trade in dried bonito and eggs at the time of the Restoration. He was also a money changer and, with the new regime, converted his business into a private bank. Small banks later were absorbed from time to time as the business grew. In 1923, the earthquake year, eleven banks which had been threatened by the catastrophe, were taken over. In the case of the Yasuda family, all trading lines seemed to have

(Continued on page 619)

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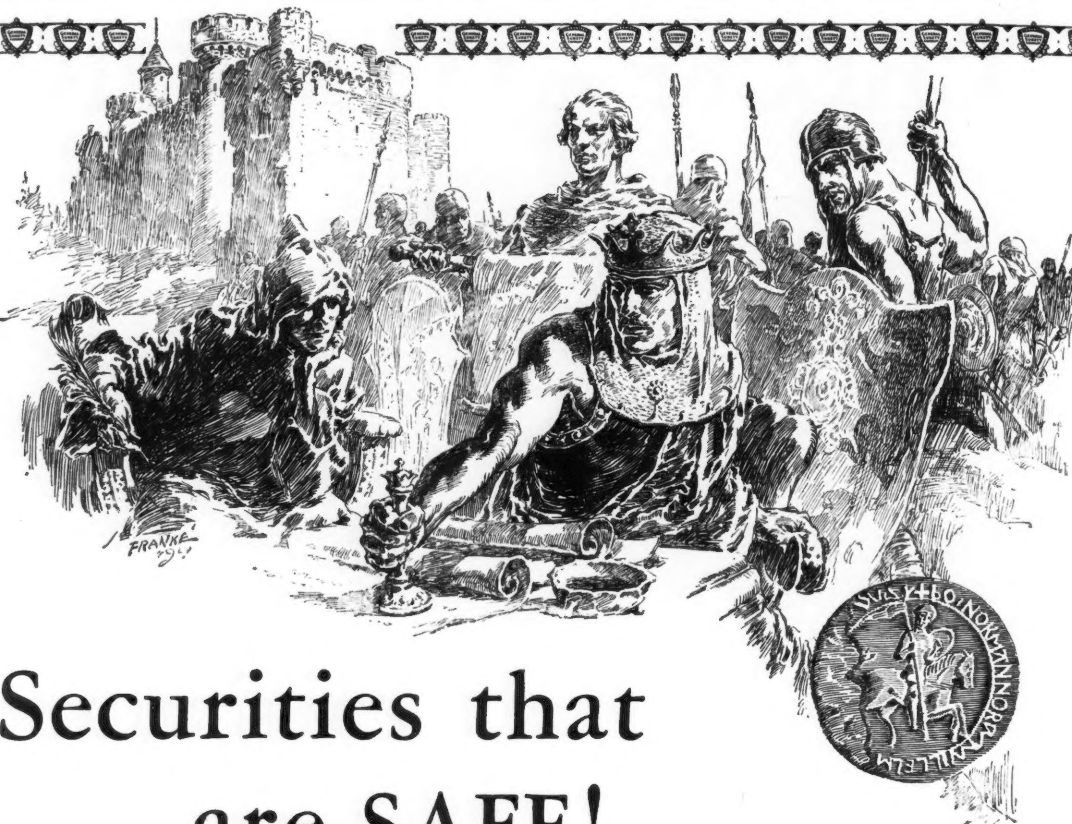

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Under the Supervision of the Insurance Department of the State of New York

Europe After the Stock Market Crash

By GROSVENOR JONES
Chief, Finance and Investment Division, Department of Commerce

Stability of European Currencies Assured After Severe Test of Sustained Magnet for Funds Created by Stock Market. The Break Prevented Gold Embargoes and Serious Reactions Upon World at Large. Economic Conditions Abroad Improve Steadily.

Favorable

HOW has the stock market slump affected Europe? There is an answer to that question in the accompanying article by the chief of the Finance Division of the Department of Commerce at Washington. Instead of exerting an adverse influence, Mr. Jones sees some favorable reactions across the Atlantic where powerful economic changes are taking place, which will have a bearing on business here. Europe, anxious to make more progress, has copied some of our methods, adapted others.

WHAT is the economic situation of Europe after five years' operation of the Dawes plan and in the first year of the Young plan?

Strictly speaking, the Young plan is not yet in operation, but there is no question that the plan will ultimately be adopted. That the final acceptance of the Young plan means much to Europe and indirectly to the world at large there can be no doubt. In fact, Europe has already begun to discount the benefits of the plan despite the long-drawn-out negotiations at The Hague this summer and at Baden-Baden this fall.

Whether the Young plan will provide "a complete and final settlement of the reparations problem" time only can tell, but this much at least can be said with assurance: That the new plan will remove the reparations problem still further from the realm of international politics and will greatly facilitate the solution of the problem. Both the Dawes plan and the Young plan, it should be noted, were drafted by non-political experts. In the framing of the Dawes plan economists played the principal part, while financiers predominated in the formulation of the Young plan.

Via Gold Exchange

COMPARING the present economic situation of Europe as a whole with the situation as it existed at the time the Dawes plan was adopted, one is struck with the great improvement which has taken place in the short space of five years.

The currencies of Europe, with only one or two important exceptions, have either been restored to some form of the gold standard or have been definitely stabilized. Extreme fluctuations in European exchanges have been eliminated; currency reserves have been strengthened; and wages and prices have generally been adjusted to the new gold exchange values of the currencies. Spain is the only important country in Europe that has failed as yet to return to the gold standard, but Spain has for a number of months kept the exchange value of the peseta fairly steady at levels within striking distance of parity.

That the currency systems of Europe are on a reasonably sound basis is shown by the manner in which they have met the severe tests of the past year or more. It will be recalled that most of the countries of Europe proceeded to return to a sound currency status via the gold exchange rather than the absolute gold standard, in accordance with the recommendations of the Genoa Conference of 1920. This procedure was greatly facilitated by the large volume of foreign loans issued in the United States in the period between 1922 and the middle of 1928.

Many Were Skeptical

SINCE the return to sound currencies in Europe had been rapid, and since American credit in various forms had played so large a part in this movement, many authorities were skeptical as to how the restored currencies would fare, if the United States should curtail the volume of its loans and credits to foreign countries. The events of the past year have given a complete answer to the queries on this point.

Since the middle of 1928 the United States has experienced a period of abnormally high interest rates, which resulted not only in a marked reduction in new foreign loans and in the withdrawal of most of our deposits and short-term investments from European money markets but, also, in the attraction of European short-term funds to our money market. A more drastic change in our credit relations with Europe or a more severe test of the stability of European currencies could hardly be imagined.

But, as is well known, none of the countries of Europe was obliged to resort to extreme measures to safeguard its currency. In response to the decline in the exchange value of their currencies in terms of dollars which resulted from this decided reversal in the flow of capital, European countries exported gold to this country, even though such withdrawals were most unwelcome to them. In other words, they kept to the gold standard. The central banks finally had to raise their discount rates to fairly high levels to keep funds at home, although the heads of these banks realized how seriously a rise in interest rates might affect domestic industry and trade.

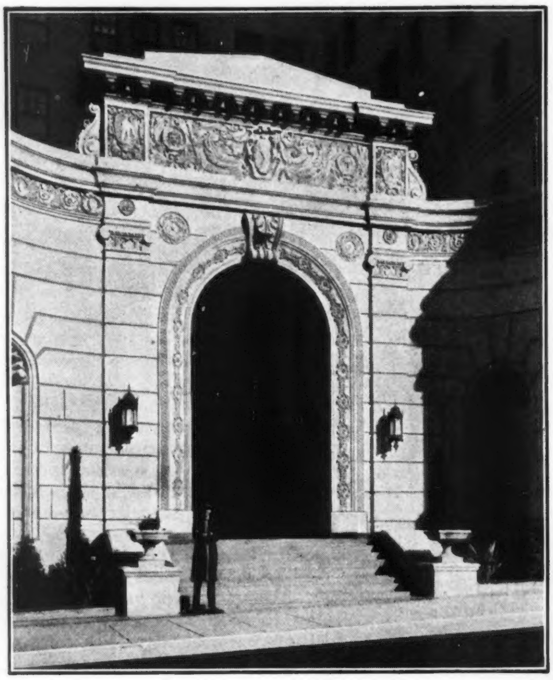
Were Genuinely Alarmed

EUROPEANS were worried, but they did not lose their heads. They kept wondering when the bull movement in the American security markets would come to an end, for they felt that our speculative activity was the most abnormal financial situation facing the world and the prime cause of the high cost of credit. They were genuinely alarmed at the volume of European funds that were being attracted to New York either for investment or speculation in American securities or for loans in the call-money market.

The break in the market has come. While our people are concerned at the mischief which this inordinate speculation has caused, the people of Europe are breathing a sigh of relief that the storm

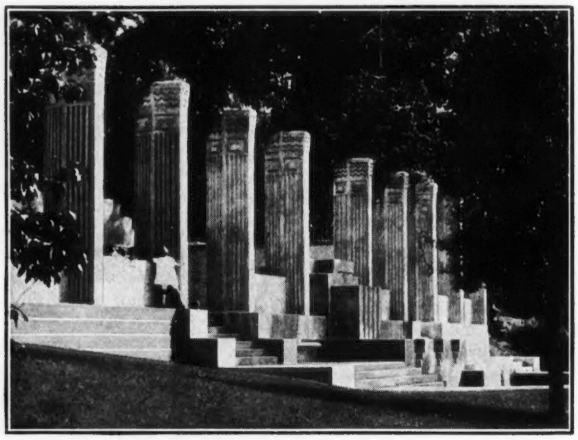
(Continued on page 633)

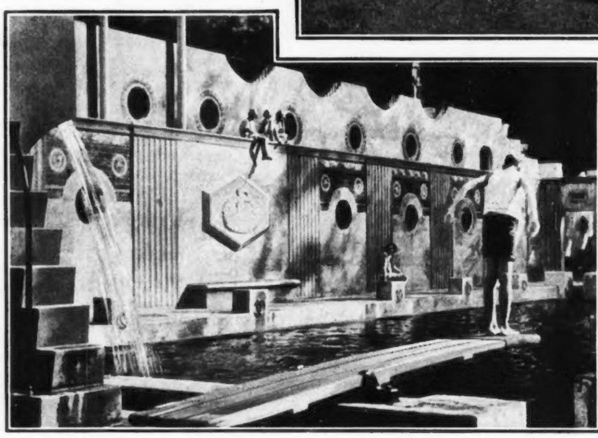
These Beautiful Effects



Appreciation of concrete and its advantages, both from the structural and artistic standpoints, is rapidly growing. New examples of the wide latitude of design permitted by this plastic material constantly demonstrate its possibilities.

The entrance to the Arcady Apartments in Los Angeles, is a striking example of the ornamental beauty attainable in monolithic concrete. Walker and Eisen, Architects, Los Angeles.





Swimming Pool Photographs by Sigurd Fischer, New York City.

Classic in inspiration but modern in conception, the approach to this Swimming Pool at Green Hill Farms Hotel, Overbrook, Philadelphia, is a tribute to the monolithic technique. Solid concrete construction gave the architects ample scope for the creation of a beautiful and original setting for the pool proper. Harry Sternfeld, Philadelphia, and John Irwin Bright, Ardmore, Pa., Architects.

PORTLAND CEMENT

CONCRETE FOR PERMANENCE

Achieved in Solid Concrete

-decorations cast integrally with the structure

This modern factory building, the plant of the Southern Biscuit Works at Richmond, Va., demonstrates the combination of true beauty with the purely practical in reinforced concrete construction. The picture at the left shows also how splendidly a concrete exterior lends itself to flood lighting. Francisco and Jacobus, Architects, New York City.

MONOLITHIC concrete construction—the placing of concrete to form an edifice which is, in effect, a single stone—today offers possibilities undreamed of a few short years ago.

Wide latitude, both in design and embellishment, is permitted by the monolithic technique. Ornamentation is cast as a part of the structure. Colors and wall textures may be simply controlled. The new elements of design associated with modern architectural thought are easily executed.

The structures pictured here—from swimming pool to factory—show the possibilities of monolithic concrete. The main walls and the exterior decorations were moulded in place. Harmonized beauty results.

Modern concrete architecture—beautiful, economical and firesafe—is an interesting study. We will gladly assist those who desire to go further into it. Complete data and references await your request.

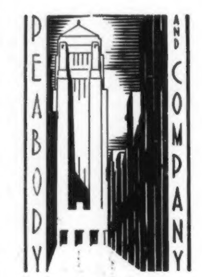
ASSOCIATION *Chicago*

. . .AND FIRESAFETY

The Business Investment Account

A BUSINESS, whatever legal form it may assume —corporation, partnership, etc.—is an entity and, like an individual entity, has or should have a program of investment as a reasonable protection against uncertainties, hazards and necessities of the future and for availing itself of opportunities which may arise.

A business without such a program, in our opinion, is not conforming to standards of management and planning that have been tried and proven successful in this country and abroad.



LA SALLE AT MADISON

A program for the creation and development of an investment account for a business is related to the following broad policies:

(a) To a general safeguarding policy in the creation of a fund that assures the business of a reserve to take advantage of a profitable opportunity, or for protection in the event there is a drain on company resources for the weathering of any recession or hazard that may take place in business;

(b) To a specific plan for a definite objective, such as a building construction program, additional machinery acquisition, or some other definite objective;

(c) To a segregation of an amount that has a reasonable relationship to the allowance for depreciation and obsolescence of machinery and equipment, which allowance has been charged to earnings, so that when depreciation or obsolescence becomes present, in part or in whole, the business has the ready funds to adequately take care of the contingency.

It is axiomatic that the individual who accumulates no margin from earnings, in liquid form, is not using good judgment in providing for the contingencies and hazards that may require such liquid reserve.

The foregoing principle is likewise applicable to a business, to-wit, that earnings should not altogether be absorbed in distribution by way of dividends, or by way of addition to already effective working capital, or by way of acquisition of fixed assets, but that a certain proportion thereof, as a matter of sound financial policy, should be reflected in an investment account fitted to the proper policy for that business. A division of earnings properly analyzed allocates the proportion of earnings that should flow to working capital, the proportion of earnings that should flow to dividends, the proportion of earnings that can properly be diverted for fixed property acquisitions, and the proportion of earnings that should properly flow to the investment account for general safeguarding purposes.

In many instances plans for a specific purpose should be taken care of by a well considered investment account, rather than through further private or public financing. A program for public financing very often is expensive and hazardous and, when relied on by a business not large enough to warrant public support through the conventional channels of financing, is a most uncertain method of securing funds. Private financing may likewise be hazardous and uncertain.

A business that charges its earnings with a reasonable allowance for depreciation and obsolescence (both of which are usually reflected in the reserve for depreciation), and allows such charge to be reflected in working capital, or additions to fixed equipment, without giving thought to a proportion thereof to be reflected by way of a security investment account, in our opinion is not observing sound business practice. The day will inevitably come to a business when worn out or obsolete equipment must be replaced. The earnings of the business have been duly charged with a reasonable allowance for this contingency and it seems quite logical that when a business executive asks the question—Where are the funds for the replacement of such worn out or obsolete equipment?—the answer should be satisfactorily given. Unfortunately, in many instances the answer is this: The earnings are reflected in the necessary working capital to operate the business and/or in purchases of equipment or other fixed assets usable in the business; there are no funds available for replacements. A well considered investment account, developed in a proper relationship to reserves for depreciation and obsolescence, answers the question in the most satisfactory and reassuring manner.

We believe our institution can give sound counsel in working out the business investment account in conformity with conservative practices. We invite correspondence on the matter.

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DETROIT ST. LOUIS MILWAUKEE MINNEAPOLIS

The Small Bank's Chance

By H. N. STRONCK

Given Excellent Management Small Bank Has as Good a Chance for Satisfactory Profits on Its Invested Capital as Larger Institution. Potential Advantages in Group or Chain Banking Believed to Hinge Upon Success of Management at a Distance.

THE trend in banking, since 1920, is strongly towards greater resources and a lesser number of banks.

The too rapid, and in many instances unwise, expansion of banking systems in their number of units during the preceding half-century was bound to lead, and did lead, to disaster, as is evidenced by the era of bank failures which developed subsequent to 1920. The "overbanked" situation was exceptionally serious in a great many of the mid-western and western states and it is in these states where the greatest mortality rate of banks occurred.

What is now generally referred to as the "era of bank failures" commenced with the year 1921, during which year 502 banks were suspended. The movement reached its peak in 1926 with 956 suspensions. During the eight-year period, 1921-1929, 5004 banks were suspended, which equaled 16.6 per cent of the total number of banks in existence in 1920.

Face to Face

IT is interesting to note the type of bank most affected by the era. Relative to size of bank, the greatest rate of mortality was in banks with a capital of $25,000, or less, for 63 per cent of all banks that failed were in this capital size class. This size class of bank is one usually found in the small communities, so this percentage rather naturally correlates with the fact that 60.8 per cent of the number of failed banks were located in towns of a population of less than 1000.

A study of the earnings of banks in many states, arranged in accordance with size of bank groups, leads to a general conclusion that the smaller the size group of banks the lesser is the average net profit to invested capital for the group aggregate, under present economic conditions in the banking field and under the present status of the development and application of bank management in the average, small country bank.

All of this brings us face to face with the problem of the small bank. The question has frequently been asked: "Has the small bank a chance?" My own opinion, based upon very extensive studies, is that the success of a banking unit is not so much a question of size, but that it hinges almost entirely upon the question of management.

The Ultimate Criterion

STUDY of the earning power of some 1500 country banks in ten different states disclosed that 18 per cent of the group with $25,000 capital or less had earning records of over 10 per cent on total invested capital. Capable management was the cause assigned for the showing of these smaller banks and this factor is considered the ultimate criterion of the success of any bank, be it large or small, unit or a member of a group or branch system.

Size Attracts Size

IN a recent earning power study made of some 1500 country banks, located in ten different states, the conclusion reached was that the smaller the size aggregate of groups of banks, the greater was the percentage in number of banks operating at a loss, no profit, or subnormal profit, in a size group. On the other hand, it is of outstanding interest for the country banker who operates a small bank to note that this study disclosed that 18 per cent of the number of banks in the size group of $25,000 capital or less had earning records of over 10 per cent on total invested capital.

In other words, 18 per cent of these small banks were in the high earning power class and hence compared very favorably with the earnings of large metropolitan institutions. On the subnormal end of the earnings scale, however, there are far too many banks. This leads me to conclude that, given excellent management, the small bank has as good a chance for satisfactory profits on its invested capital as the far larger institution, but we have only approximately eighteen out of every 100 small banks which appear to evidence this highly capable management. This leads to the conclusion that there is not a sufficient number of excellent bank managers to operate the many thousands of small banks.

Fundamentally speaking, therefore, the so called problem of the subnormal bank, either as to earning power or financial position, is not so much one of size but one of injecting effective management. However, the problem of injecting effective management into a small bank is far more difficult than in the large bank. The gross income of the small bank is in itself so small that it is exceedingly difficult, and in many instances impossible, to obtain the right type of managerial personnel. This is where the large bank has the advantage "for size attracts size"—the large bank attracting large size of managerial capacity.

The Triangle of Management

VIEWING this problem of bank management from another angle the fact stands out that the success of any bank is dependent upon the degree with which the factors in the "Triangle of Management" are applied. This "Triangle of Management" consists of three sectors—one equally as important as the other. These are:

1. Sound policies.
2. An organization capable of carrying out these policies.
3. A control which insures that the organization carries out these policies.

Several volumes could be written on each of these three points, but all that I shall attempt is to explain their connection in relationship to the problem of the country bank.

Sound policies are unquestionably the foundation upon which all successful management rests, for policies determine the course of action. In view of the fact that many policies in large banking institutions are still unsound, it would be unfair to criticize unsound policies in existence in small banks with but meager personnel facilities for the development of sound policies. Fortunately this question of the development of sound policies of a major aspect is not so much a local problem for each individual institution to solve, but a problem nation-wide in scope. Any sound, major policy is applicable to any

bank regardless of size, nature of business or location. The American Bankers Association has created a separate commission to further the development of sound banking policies, establish facilities to undertake such work and make their findings available to all banks. When once developed and made available, the individual bank can no longer use as an alibi for failure the old statement "we did not know." The problem of sound policies for any bank can be solved and will be solved.

An effective organization to apply sound policies—the development of such an organization becomes more and more difficult as the size of the unit becomes smaller. Even the large banking units find this to be their most vexing problem. One of the chief arguments of the advantage of consolidating units, either in the form of mergers, group banking or branch banking, is that an increase in aggregate resources makes possible an increase in aggregate gross income, so that such gross income is sufficiently great to make possible the obtainment of better management talent than would be possible for smaller sized units.

Control Benefits

A CONTROL which insures that the organization will apply sound policies—the development of such a control mechanism lies in the field of bank technology. It involves the establishment of definite programs for financial and operative management and checks and verifications to determine the degree to which these programs are adhered. The development of such programs, and the creation of mechanisms for the measurement of results, is a highly technical problem and one that can be solved only by outstanding specialists. There is a decided lack of such properly trained specialists, and hence it is exceedingly difficult for small banking units to obtain qualified experts as members of their own organization. Here is where the large banking units, or groups have a potential advantage, for their volume is so great that necessity forces them to apply the most modern management technology to coordinate and control activities.

Historically speaking, ever since the establishment of regulating bodies, some form of control has been injected by these bodies. The usual form is through annual, or semi-annual examinations, the principal object of which is to disclose whether or not major policies of financial management, as established by the banking laws and regulations, have been violated. The degree of effectiveness of such work is largely determined by the capability of the bank examiners. Also, such examinations are but periodic and much can happen between examinations. To more intensively apply the principle of examinations, examining clearinghouses have been established in the larger cities and a very rapid movement is taking place in the establishment of regional clearinghouses in order that country banks may also obtain such control benefits.

The Present Strong Trend

FROM the foregoing discussion, it can be seen that the problem of establishing very effective bank management in an individual institution is a difficult one, even though such an institution receives considerable aid from the outside in the formulation of sound policies and injection of proper controls. The problem is especially difficult for the small bank.

I believe that the present strong trend towards consolidation of resources, be it in the form of physical mergers, group or chain banking, or branch banking, has as its fundamental premise, at least on the part of institutions and organizations sincere in their work, the creation of a condition which will make possible the application of better bank management to the enlarged aggregate than would be possible for each separate institution.

We have certainly drifted into an unprecedented era of bank mergers, and this movement is not localized, nor is it limited to large banks; it is nationwide and applied to small banks in small communities as well as in metropolitan banking centers. Concentration of banking resources, purely through physical consolidation of banks in the same community, is so rapid that any figures for today are obsolete tomorrow. In the national banking system alone, at December 31, 1928, seven banks out of a total of 7635, or only one-tenth of one per cent of the total number represented 20.3 per cent of the total resources of the national banking system. As of July, 1929, there were three banks with deposits of over $1,000,000,000 each and twelve with over $500,000,000 dollars each. Under the unit banking system, we have already reached a point of concentration of banking resources in but relatively few institutions and the trend is strong towards further concentration.

Looks With Alarm

THE term chain or group banking appears to be synonymous; the old term was "chain"; the more recent "group." Opponents of this form of concentration like to use the word "chain" and point to the failures of many so-called "chains" as an argument against this form of banking. The proponents of this form generally refer to it as "group banking."

Under the modernized conception "group banking" takes the form of a holding company of bank shares and it usually owns all or majority interest in the shares of the individual units, although, in some instances, only minority interests are held, but the holding company does dominate the policies of the units.

Under the old plan of "chain" banking, usually an individual or a small group dominates the policies of several units, either through stock ownership, interlocking boards of directors, interlocking officers, or a combination of all three. When the policies of several units are dominated by an individual, a small group, or a corporation, it is considered as being a "chain," or "group," regardless of whether or not actual stock control is held.

The growth momentum of this form of banking is unusually great and certainly any statistics as to its position gathered at the moment will be decidedly obsolete, a few months from now. Many an individual banker looks with alarm upon the rapid expansion of this form of banking.

Potential Advantages

IT must be admitted that, as yet, many an organization developing this form of banking is "sailing on uncharted seas" and it might also be anticipated that unless the "seas are definitely charted" some shipwrecks may result. I do not believe, however, that, as a principle of concentration of banking resources, this form of banking is unsound, as a matter of fact I can see many a potential advantage. I say potential advantage, for I do not believe that any of these groups have as yet reached a point of development in the technology of management whereby potential advantages have become actual advantages.

I can readily see, that if it is advantageous to concentrate banking resources through mergers of banks all located in one community, that it might also be advantageous, under certain conditions, to extend this "merger idea" beyond single communities. The moment we do this, however, the problem of "management at a distance" enters the equation and dependent upon the solution of this problem there is hinged the ultimate success, or failure, of this form of banking.

For the purpose of this discussion, I am going to consider the term branch banking as applied to an extension of banking services from a headquarters bank beyond the city limits of the city in which the headquarters bank is located, so that the problem of "management at a distance" also enters into the equation and equalizes same with group banking methods. This form of concentration of banking resources is the accepted form in practically all countries outside of the United States and in the United States it has reached a high degree of extension in California. From the standpoints of the banking process, the technology of administration, the technology of procedures and the viewpoint of regulating bodies, this form of banking has some decided advantages over the group banking plan. From the standpoint of the human element and customers' relations, I believe that group banking has some advantages over branch banking under the present conditions of banking systems. I believe that modern group banking systems attempt to straddle somewhere between unit banking, to conserve as many of its advantages as possible and branch banking, to take advantage of many of its excellent points.

Regardless of what form a banking system takes, be it unit, group or

(*Continued on page* 640)

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A steel partition divides the vault, one end being used for safe deposit boxes and the other for securities. Two entrances, each 20″ in net solid thickness, have been provided. "Infusite," York's torch-resisting metal, has been incorporated in them. The vault walls are lined with steel, several layers in thickness, one layer of which is "Infusite."

Nearly 4,000 safe deposit boxes have been installed. Each is equipped with the York Combination Changeable Key Lock. The security vault is provided with lockers and chests to meet the requirements of the commercial departments of the bank.

York Vaults are selected by leading financial institutions throughout the world. Let us give you full information regarding York advantages for your requirements.

YORK SAFE and LOCK COMPANY
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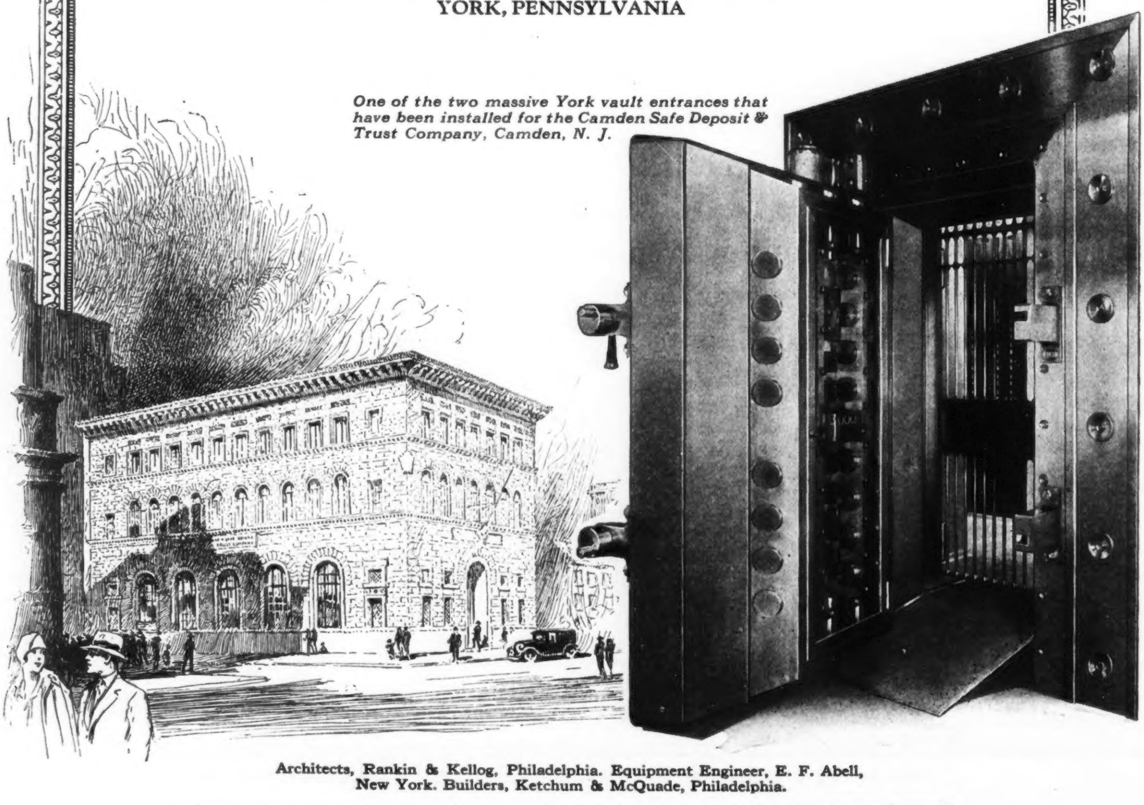


One of the two massive York vault entrances that have been installed for the Camden Safe Deposit & Trust Company, Camden, N. J.

Architects, Rankin & Kellog, Philadelphia. Equipment Engineer, E. F. Abell, New York. Builders, Ketchum & McQuade, Philadelphia.

Characteristics of French Securities

By J. d'ALGAY

French Listed Corporate Securities Have Many Peculiarities. Most Bonds Are Unsecured. Mortgage Loans Seldom Issued. No Such Things as Prior Liens, Equipment Trust and Collateral Loans Issued by Companies. Preferred and Common Stock Alike

COINCIDENTALLY with the steady development of financial relations between the various international markets of the world, which has been an increasingly important feature in the financial history of recent years, American capitalists have found a new field for investments in the stcck exchanges of Europe, either directly by making personal purchases of foreign securities through their own bankers, or indirectly by acquiring shares of investment trusts, some of which were already more or less specialized in foreign securities.

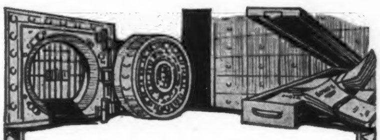
In anticipation of the rise on the French stock market, which was expected to follow the stabilization of the franc, and which, in fact, exceeded the most optimistic views, large holdings of French securities were thus purchased in 1927 and 1928 for foreign account, and probably sold again with appreciable profits.

Amply Discounted

SINCE the beginning of 1929 the market has been irregular, with a marked tendency to recede from the peaks reached a few months previous. Many reasons could be invoked to explain this persistent weakness, which favorable developments on the political and financial plans have failed to correct. The actual truth probably lies in the fact that prices of the best stocks had reached so high a level that favorable prospects, which should ultimately result in a reasonable return on the investment, appear to have been amply discounted a long time in advance.

For the time being at least, the French market has, therefore, ceased to be an active center of attraction for foreign capital. Nevertheless, sooner or later, when prices and yields are more in line with near prospects, interest may revive abroad for French stocks with, however, the important difference with the 1927-1928 movement, that more careful consideration will be required in respect to the intrinsic merits of each individual stock than was formerly the case. The general upward sweep of the stock market which took place largely reflected a wholesale revaluation in terms of the new franc of the actual worth of the property owned by the various enterprises, a phenomenon in the investment field.

Before making any commitments, the American investor will need a little more accurate knowledge of the financial structure of the companies of which he intends to become—temporarily at least—a shareholder than he did in 1927-1928.



On the Bourse

AMERICAN investments in French issues during **1927-28** *were largely induced by th ephenomenon of values accompanying the revalorization of the franc. Future investments in French securities will demand the same understanding of what they represent that is a prerequisite to successful dealings in domestic stocks and bonds. M. d'Algay, an expert on the subject, describes what each type of security listed on the Paris Bourse represents.*

Distribution of Profits

THE purpose of this study is to give a summary of the essential elements which he will require to form an accurate idea of the respective features and relationship to one another of the various classes of industrial stocks listed in Paris. In order to cover the whole range of securities, from which an investor may make his selection, a paragraph will be devoted to a description of the general characteristics of bonds issued by French companies.

Before going into details, it will be helpful, as they have an important bearing on the financial structure of companies, to describe briefly the rules which, subject to minor variations, constantly govern the distribution of profits of French companies. Under the Company Act of July, 1867, 5 per cent of the net profits for any year must be credited to the "Legal Reserve Fund" before any distribution is made; such appropriation ceases to be compulsory when this legal reserve reaches 10 per cent of the capital issued. Next in order, it is the practice to pay a certain amcunt as statutory interest on the capital paid up, at the rates fixed by the articles of association for the common and preference shares, if any.

The balance of profits is distributed between the directors, shareholders, and holders of founders' shares, as determined in the articles of association. Generally the directors first receive a percentage of the balance of 10 per cent to 15 per cent and the surplus is distributed to the shareholders, subject to appropriations to special reserves as voted at the annual meetings of the shareholders. The amount paid in addition to the statutory interest is frequently called "superdividend," at the risk of creating some confusion, for the term "dividend" is always understood to designate the amount distributed to the shareholders which may consist of the statutory interest alone or of the statutory interest plus the additional payment or superdividend.

Bonds Are Not Secured

BONDS are, of course, contractual obligations, the characteristics of which have been so frequently described that there is no necessity to enlarge on this well-known subject. In respect to French industrial bonds, what deserves the investor's attention is that most of these bonds are not secured.

Bondholders are, therefore, in a majority of cases, in the position of ordinary creditors; furthermore, each one of them is entirely independent from the others in the exercise of his rights, and any decision arrived at by even a majority of other bondholders is not enforceable against him. In numerous cases, however, when a company issues bonds, it provides, under the terms of the offering, that all the subscribers of the new bonds will be grouped in an association, the decision of a majority of which is binding for all the original subscribers and subsequent owners.

A more unusual procedure is to make it compulsory upon the bondholders, under the terms of the offering, that they should be jointly and severally represented for the exercise of their rights by mandatees who are vested with all necessary powers to execute the decisions taken by a majority of the bondhold-

ers at their general meetings for the protection of their interest.

Mortgage Loans Rare

OUT of some 450 different public utilities and industrial loans listed on the Paris market, only ten are indicated as mortgage bonds, or less than 3 per cent of this total. A more comprehensive investigation of all industrial loans, whether listed or not, reveals the fact that in many cases mortgage bonds have been issued by small companies having only a local field of activity. Such bonds are usually sold by local bankers in their immediate clientele, where the mortgaging of some property which is known to everybody in the region may constitute an additional feature of interest facilitating the placing of the bonds.

A very few larger companies have issued mortgage bonds to finance new construction when the mortgaged property constitutes a type of assets, such as, for instance, a hotel or an automobile factory, which could be easily turned over to the mortgagees and utilized without necessitating any radical transformation. It will generally be found that the issue took place at a time when the financial position of the company was not very satisfactory or its prospects still rather uncertain.

A number of real estate companies have also issued mortgage loans, though the usual practice is, when wishing to borrow on mortgage, to apply for the loan to the *Crédit Foncier de France* and similar institutions or syndicates and private capitalists through the medium of the public officers, called notaries, whose business is to liquidate successions, take care of funds of minors and execute deeds between private parties.

In short, large companies of good standing, with a wide range of activity, practically never issue any mortgage loans. There are no such things either as prior lien, equipment trust, and collateral loans. Occasionally, however, the terms of the loans contain the negative pledge clause, whereby the company covenants not to give any mortgage on any of its property without extending the benefit of such mortgage to the new loan and any further loans which it may issue.

Save Legal Expenses

THE companies, therefore, mostly borrow on their credit, which, from the public standpoint, is chiefly based on their past profits, the amount of their capital and surplus, and habits in respect to amortization of property. It is well known that it has been generally a constant policy on the part of many of the large French companies to distribute only a moderate part of their annual profits, exceeding rarely 60 per cent of the declared net amount, and to reinvest the balance in the concern, while also large amortization of property is frequently made before inventory. The French public is thoroughly familiar with this practice, and if solicited to take new bonds does not expect to be offered any special security in addition to the good name and satisfactory records of the borrowers. The companies thereby save legal expenses and fiscal formalities.

The features of the terms of any bonds issued are also of the simplest. In most cases, the loans are issued below par and are redeemable at par by annual or semi-annual drawings to begin in the first year or two, three, four and five years from the date of issue, or by purchase below par in the market. The rate of interest of the loan is determined by the conditions prevailing on the money market and the individual credit of the borrowers. Industrial bonds before the war were generally issued in denominations of 500 francs. The present tendency is to adopt the 1000-franc denomination, which, in view of the reduced purchasing power of the franc in comparison with pre-war conditions, is a more convenient unit without being too heavy to prevent a wide distribution of the bonds among the very large class of small French capitalists. Generally the companies reserve the right to reimburse all or part of their loans on any coupon date, subject to three or six months' notice at any time, or after a short delay rarely exceeding five years.

Three Categories

BEFORE the war the taxes on securities were deducted from the coupons paid and bonds redeemed. Since the war the companies have assumed the charge of the securities income tax (now 18 per cent) and of the transmission tax (now one-half of 1 per cent on the average market price for the preceding year), but, since 1924, the companies have been legally forbidden to assume this latter tax. Consequently, there now exists three categories of bonds: tax-exempt bonds, when the coupons are paid free of any deduction; semi-exempt bonds, when the coupons are free of the income tax but are paid under deduction of the transmission tax, and non-exempt bonds, when the coupons are paid under deduction of both taxes. The bonds redeemed are paid under deduction of the tax on the redemption premium, which is 18 per cent of the difference between the price of issue and the redemption price.

It is quite unusual that industrial bonds offer additional features, such as redemption above par, non-callability for many years, privilege of conversion into stock and other provisions. There has been, however, a recent example of a loan issued by one of the leading dry-goods companies of Paris where the price of redemption, if called before maturity, which is in 1949, will be determined by the average market price of the sixty preceding Bourse days. In view of the fact that this loan carries 7½ per cent interest, is semi-exempt of taxation and not callable for ten years, there should be a substantial premium above par if, as anticipated, the trend of the long term money rate continues downward over a long period of years. If this premium does not materialize, it is, of course, understood that the bonds will be redeemed at par. The larger portion of this loan was reserved for subscription to the shareholders and the balance to the employees of the company, and this explains the unusual features attached to this loan.

We may also quote the case of a loan, issued three years ago by an automobile company, where the bondholders received, in addition to the coupon, a supplementary interest computed on the basis of a percentage of the business turnover; but these two loans and a few other loans presenting similar features are quite exceptional. Bonds redeemable with lottery bonuses are issued only by the *Crédit National*, the City of Paris, and the *Crédit Foncier de France*.

Capital Structure

THE organization and capital structure of French companies is governed by a law of July 24, 1867, which, though amended in some details by subsequent laws, still encompasses the essential principles underlying the constitution of companies, the formation of the capital and the rights of the shareholders, as laid down at the time this law was enacted. Some of these principles are very broad and leave a considerable freedom of action to the companies, but the essential point to bear in mind is that a company cannot be definitely organized unless all of its capital has been subscribed for and paid for in cash if the par value of the shares does not exceed twenty-five francs, or unless all of the capital has been subscribed for and 25 per cent of the par value of the shares paid in cash, if the par value of the shares is at least equal to 100 francs.

The capital stock of the companies must, therefore, be, and in fact is always, divided into shares of a certain par value; but the law is silent on the manner in which this division shall be made on the various categories of shares to be issued, on their respective rights in the distribution of profits and voting privileges. It states, however, that shares in so far as not fully paid must always be registered in the name of the owner, who remains liable for the payment of subsequent calls. This liability endures for two years in respect to the original subscribers or each subsequent holder after any transfer of the registered shares to a new shareholder. It expires at the termination of two years after the transfer.

Listed Stocks

IF we now glance at a French official stock exchange list, under the caption, "*Valeurs Mobilières—Actions*," which may be translated as "Securities—Shares," we shall find that the following categories of shares are listed: *Actions de Capital, actions de jouissance, actions privilégiées, Parts de Fondateurs, Parts bénéficiares.*

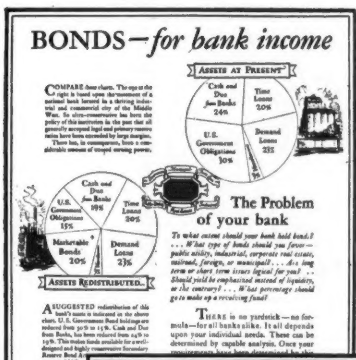
Actions de Capital, which are also termed *Actions ordinaires*, represent the common shares of the companies, which, as already stated, may be fully paid or only partially paid, in which case the

(*Continued on page* 631)

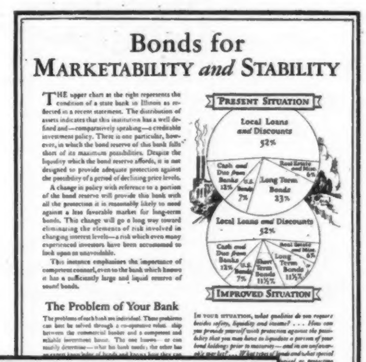
Bonds—*to fit your bank's needs*

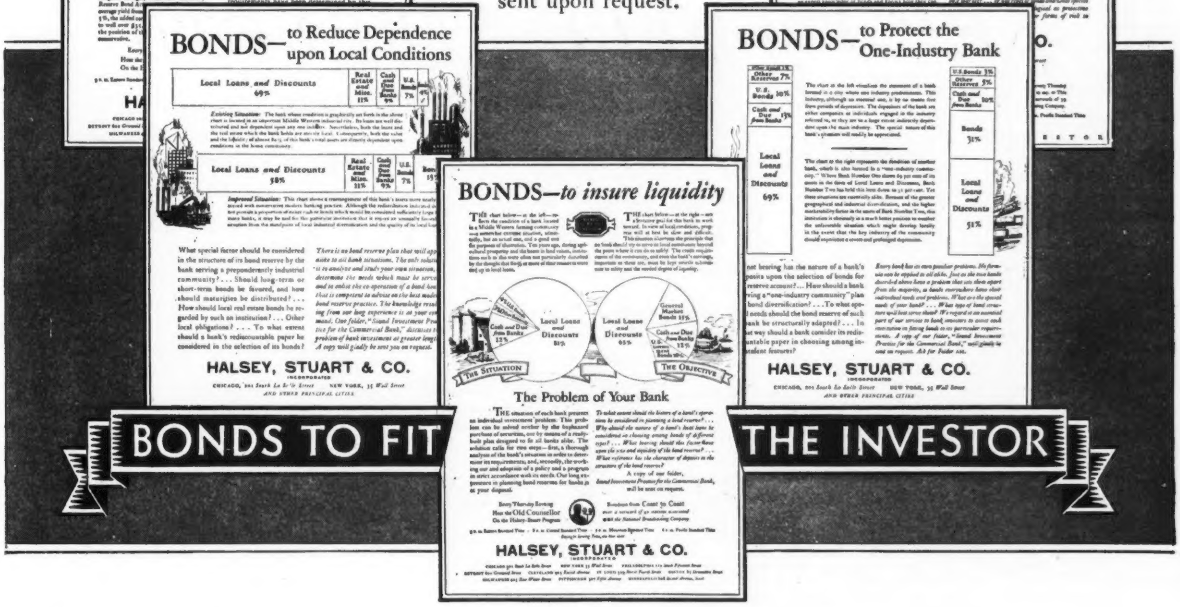
A SERIES of advertisements has appeared in this publication during the past year, showing how the requirements growing out of typical bank situations should be governing factors in the construction of sound bond reserves. These advertisements are reproduced here in miniature.

The variations upon these situations are almost endless. The problems of each bank call for individual treatment. The solution is to analyze your situation, to determine your needs and to design your bond reserve accordingly. You are invited to avail yourself of our long experience in the field of bank investment.



Our recently published folder, *Sound Investment Practice for the Commercial Bank*, discusses this subject at a greater length. It sets forth the four essentials of successful banking and then points out the ways a bond reserve helps to attain these objectives, following with a detailed analysis of points to consider in building such a reserve. A copy will be sent upon request.





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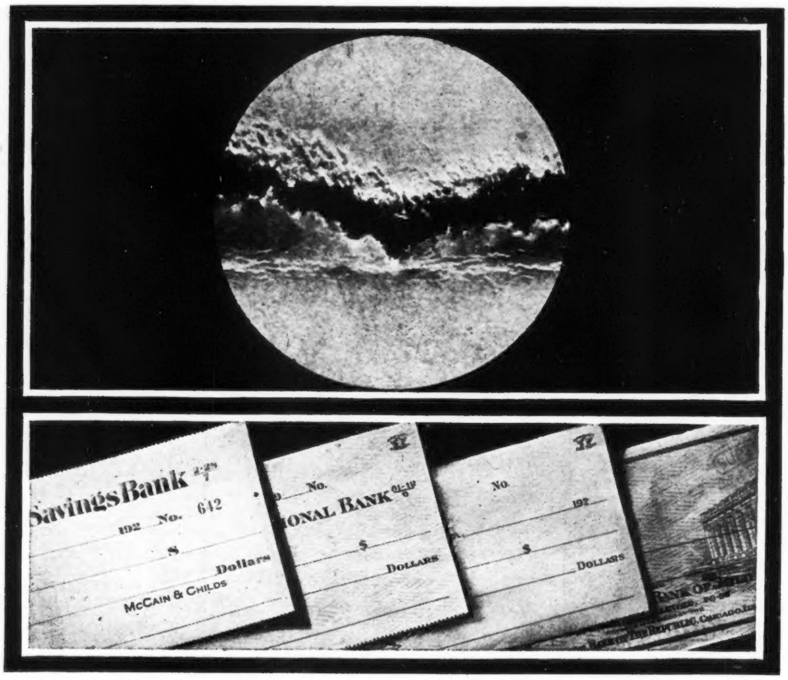

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Seven Years of Searching

By HENRY E. SARGENT

Stock Market Collapse Marked End of Seven Years of Federal Reserve Easy Money Experiment. Signs Point to Formation of Permanent Credit Policy Replacing Tendency Toward Meeting Emergencies With Emergency Measures. The Story of an Era.

OUT of the welter of the stock market landslide in late October and early November there has emerged a new respect for the judgment of the Federal Reserve System. But accompanying the rather grudging admission that the position of the reserve system toward activity in the security markets was perhaps well taken, there is the widely held, and frequently expressed, belief that it was the system itself that provided the foundations upon which was built the tottering mountain of values.

Few opportunities have been overlooked in the past two years to flaunt in the face of the reserve system the easy money experiment of 1927. The charge that the Federal reserve policy of easy money in the summer of 1927 was responsible for the runaway stock market by stimulating speculation has been made repeatedly, and almost incessantly.

What has been overlooked, however, is that credit inflation was produced several years prior to 1927, in 1924 to be exact; that the reserve system learned a lesson by its experience in 1924; and that there now seems to be a new basic Federal reserve credit policy in the making, designed to serve the country over long, well defined periods without side excursions to meet temporary contingencies.

The Greatest Collapse

THE close of the year 1929 marks the end of a period of roughly seven years culminating in the greatest collapse of security values in the history of the stock market. The story of the relation between Federal reserve policies and the stock market is written over those seven years. It is not told by the events of 1927 alone. The events of 1924 are much more significant, but any fair appraisal of the reserve system's responsibility for the "boom" market and its subsequent crash must be predicated upon a series of years rather than upon seemingly isolated incidents.

It is only by considering the past seven years as an era that what the Federal Reserve System did in administering its custodianship of the nation's credit stands out in clear relief. The record shows mistakes of judgment, but it also shows the forces which compelled decisions and the factors which led to the decisions made. Looking back over the period there is the undeniable possibility that things might have been worse. And in any event the country enjoyed a period of unprecedented prosperity, either because of, or in spite of, Federal reserve credit policies.

High Lights

CLAMOR for an official inquiry into the conduct of the Federal Reserve System, which grew as the total of broker's loans mounted, has been intensified by the recent stock market debacle. Most of the complaints have been directed at Federal reserve operations in 1927. Here are presented the high lights of the activities of the past seven years which must be considered as a whole in passing judgment on the reserve system.

An Unhealthy Situation

WHILE changes in rediscount rates dramatized reserve policy during the period of open market operations of the reserve banks furnished the machinery by which policy was translated into procedure. Both in 1924 and in 1927 open market operation—the purchase or sale of government securities by reserve banks—produced the conditions thought desirable. But there was a great difference in the procedure in 1927 as compared with 1924.

What induced the reserve system to embark upon an adventure of easy money in 1924 has been described by the late Governor Benjamin Strong, of the Federal Reserve Bank of New York, in testimony before the Committee on Banking and Currency of the House of Representatives in 1926 in connection with proposed legislation to stabilize price levels. Governor Strong saw the operations of 1924 from the inside and realized that it was then that the system was placed in the position of having perhaps overreached itself, as he frankly told the committee. More money was made available in that year than was called for by the credit requirements of the country. Then it was that credit inflation made its appearance and it came about in this way:

In 1922 and early in 1923 there appeared to be a speculative development under way. An unhealthy situation was feared. The reserve banks had accumulated a total—at high-water mark— of $629,000,000 of government securities. It was decided that the reserve banks should liquidate these holdings.

Gold Was Coming In

BY the fall of 1923 the bulk of the short-time government security holdings of the reserve banks had been liquidated. Sales made had forced member banks to borrow considerable sums from the Federal reserve banks in order to replace the reserves which they lost when payment for securities was made to the Federal reserve banks. The fall of 1923 saw the member banks borrowing about $835,000,000 on direct discounts from the reserve banks.

At that time considerable importations of gold were being received from Europe. Some recession in business was developing. New England textile manufacturers had suffered a severe slump. To some extent the same situation was true with respect to rubber, some branches of the steel industry and other trades. One of the most serious difficulties that had developed in the country was the banking situation in the West. Notwithstanding imports of gold, there was continued pressure by member banks to liquidate their indebtedness to the reserve banks, and in turn, pressure by member banks upon their borrowers to repay loans.

The condition of the farming community, including the cattle industry at that time, as the Federal reserve authorities saw it, was coming perilously near a national disaster. Feeling became so strong throughout the West that all sorts of radical proposals for legislation and other government relief were being urged.

Meanwhile sterling exchange had been forced down to $4.26 under the influence of a general flight of capital from Europe to the United States.

It was under these conditions that the Federal reserve banks undertook the gradual repurchase of short-time govern-

ment obligations which meant a corresponding easing of money in this country. There were a number of definite objects in mind which may be summarized as follows:

Federal Reserve Policy

To speed up the process of debt repayment to the Federal reserve banks by member banks in order to relieve the weakening pressure of loan liquidation.

To give the Federal reserve banks an asset which would not be automatically liquidated as the result of gold imports so that later, if inflation developed from excessive gold imports, it might at least be checked in part by the selling of these securities, thus forcing member banks again into debt to the reserve banks and making the reserve bank discount rate effective.

To bring about a change in the interest relation between the New York and London markets, without inviting inflation, by establishing a somewhat lower level of interest rates in this country at a time when prices were falling generally and when the danger of disorganizing price advance in commodities was at a minimum and remote.

By directing foreign borrowings to the American market to create the credits which would be necessary to facilitate the export of commodities, especially farm produce.

To render what assistance was possible by Federal reserve market policy toward the recovery of sterling and the resumption of gold payments by Great Britain.

To check the pressure of the banking situation in the West and Northwest and the resulting failures.

An Unerring Finger

Following out this policy the Federal reserve banks gradually purchased over a period of eight or nine months approximately $500,000,000 of short-time government securities, and during that period gradually reduced discount rates until the rate of the New York bank was 3 per cent, while the Bank of England on July 5, 1923, had raised its discount rate to 4 per cent and exercised its influence to maintain open market rates in London at a somewhat higher level than during the previous year.

"There has been criticism of that very period," Governor Strong told the House committee. "We continued to buy securities until August, 1924. I think, myself, if it were to be done over again, we might have stopped a month earlier or even sixty days earlier. We might have bought $50,000,000 or even $100,000,000 less, but there is no mathematical formula that will tell you where to stop or begin. It is a matter of judgment. I think the guide, looking back now, was whether the New York banks were completely out of debt or not, or whether they still owed us a small amount as a regulator. We continued to buy after the New York banks had completely liquidated their borrowings from us. It may have been an error in carrying it as far as we did. Some seem to think it was and some do not, but whether we did commit an error or not is an open question."

Governor Strong pointed an unerring finger at the danger point in the open market operations of the reserve system. His perspicacity apparently bore fruit. Care was taken to avoid a similar mistake when the system again went adventuring into easy money in 1927.

Learned a Lesson

Open market purchases of securities were undertaken by the reserve banks in the summer of 1927 and discount rates were reduced. The outflow of gold from the United States which obtained substantial proportions in the summer of 1927 was at first offset by open market purchases. But the difference between the procedure in 1927 and 1924 was revealed in the shutting off of purchases in the fall of 1927 when the rapid increase in the demand for credit from the security markets became well defined. Almost immediately the 1927 policy was reversed and in the first six months of 1928 the system sold approximately the same amount of government securities that had been acquired in 1927.

The reserve system had evidently learned a lesson from 1924. Purchases of government securities were not continued as in 1924 to the point where the money market was over-supplied with Federal reserve funds through open market activities. Nor did the high point of Federal reserve purchases in 1927 exceed to any extent the peak level of the operations of 1924.

The action taken by the reserve system in 1927 was perfectly logical in the light of the policy applied to a very similar situation in 1924. Furthermore, it made use of the experience gained in 1924 in determining the extent to which it should go in easing the money market.

Conditions in 1927 were strikingly similar to those which had faced the system three years earlier. Signs of a business recession were evident in each situation. A credit stringency in Europe was a factor in both situations. Gold was a factor in both years. In 1924 Great Britain was seeking to return to the gold standard, a step of great importance to this country as heralding world-wide resumption of the gold basis abandoned by leading nations during the war. In 1927 England had resumed gold payments, but her ability to remain on a gold basis was threatened. Both in 1927 and in 1924 there was a clamor for farm relief.

Had to Choose

In each year the reserve system had to make a choice. In 1924 it could either take the chance that easy money would stimulate speculation, and if so that it could control it, and attempt to speed up business recovery both in this country and Europe by a policy of lower rates, or it could adjust its mechanism to a long, slow return to a peace basis. In 1927 there was the same question of whether business recovery in this country was to be prompt or gradual, and the European situation was ominous. Despite the criticism which has been made of Federal reserve aid to the Bank of England, for Great Britain to have been unable to maintain the gold standard would have been as great a calamity as never to have returned to the metal basis.

In 1924 the reserve system chose the quick policy of easy money. Business picked up, England resumed free gold payments, and while speculation in securities set in, it did not assume runaway proportions. The same choice in 1927 gave an impetus to business and insured the preservation of the gold standard in Europe. But speculation, with the cushion of credit inflation in 1924, did get out of hand, and the stubborn fight waged by the reserve system to exercise some control over the volume of credit available for security dealings is a familiar story.

On the Long View

However, the entrance of corporations and others into the call money market with unheard-of supplies of funds was a factor in the situation in 1927 and later years that was absent from the 1924 developments.

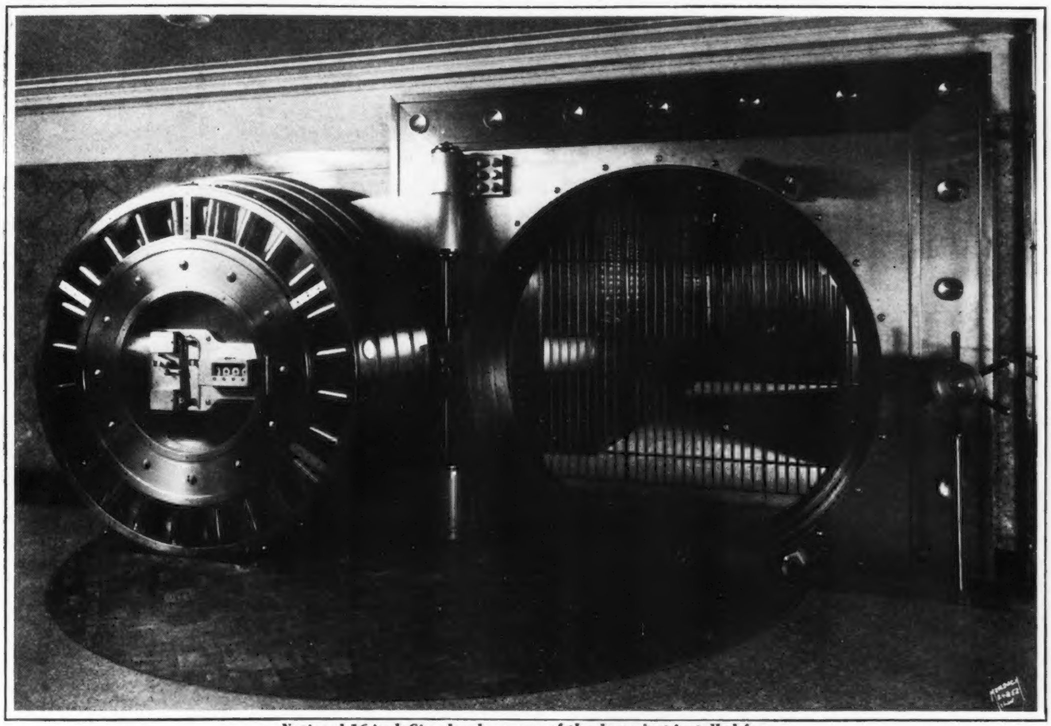
There have been errors of judgment in Federal reserve operations in the past seven years, but it is an open question as to whether it made more or less than is to be expected from any agency under human control. The period coming to a close has been the most severe test of the Federal Reserve System. The World War tried the strength of its machinery. Peace has tried its ability to serve the welfare of the country in the ordinary course.

Out of its first peace-time experience the reserve system seems to be forging a permanent policy. Both in 1924 and again in 1927 it met emergencies with emergency measures. Then in 1928 it began a gradual tightening process in contrast to the immediate effects of its easy money operations. It may be that the reserve system is coming to the belief that its credit policy must be based entirely upon the long view of the needs of the country—a policy with which temporary situations will not be permitted to interfere.

Japanese Postal Savings

Postal savings deposits in Japan now exceed 2,000,000,000 yen and the number of depositors exceeds 37,000,000, which is more than 45 per cent of the population of Japan, the Commerce Department reports.

The funds of the postal savings banks are invested through the deposits bureau of the ministry of finance. They play a very important part in the nation's finances.



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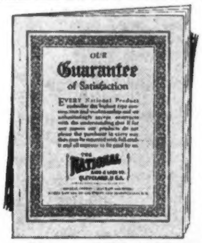

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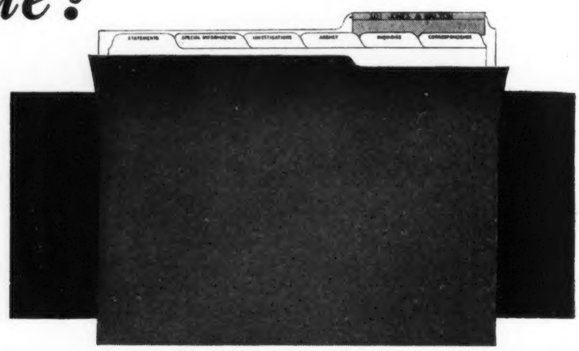

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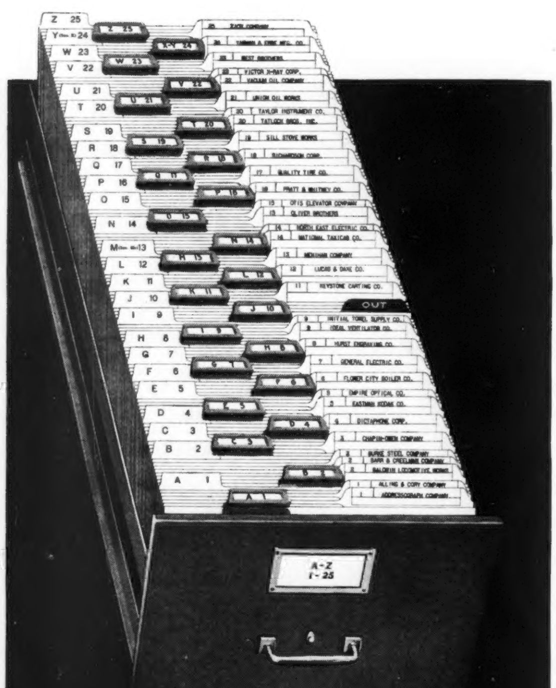

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Per Item Charges Pay Profits

By CLARK G. MITCHELL
Vice-President, The Denver National Bank, Denver, Colo.

Establishment of Per Item Charge Makes Rapid Headway. Offered as the Solution of Problem of Diminishing Returns from Increasing Deposits. Real Cooperation Essential to Success of Movement. Know the Cost of Every Service and of Every Customer.

PROGRESS—profitable operation—is the yardstick which a banker uses in appraising his customers. If any proof were needed that bankers are human, one need only observe to what extent the banker has neglected to apply this yardstick and its inferences to his own institution.

Conducting a bank at a profit involves three points that might almost be accepted as self evident:

1. The bank management must keep itself adequately informed about the cost of every service it renders and every customer it serves.
2. The bank must make each service and every customer, by and large, stand on its own feet; and in so doing must cover unprofitable services with an adequate service fee.
3. There should be cooperation to prevent other banking institutions in the same territory from rendering these same unprofitable services competitively free of charge, either through ignorance or through neglect.

To an encouraging proportion of the banks in the country, these are now "self-evident" truths. But it is only necessary to go back over the past few years to be reminded that this trend toward service fees for such items as unprofitable balances, excessive use of checking privileges, excessive amount of float, etc., is really an innovation in banking. And an examination of data derived from country-wide surveys of banking costs and profits reveals that the practice of thousands of banks is not yet in line with these principles of management.

Still a Twilight Zone

IF we may judge from numerous studies of the subject, the cost of various services is still a twilight zone in a surprising number of banks. These banks have not yet corrected and refined their cost systems to the point where they know just where they stand, what services and what customers are above or below the red line, and what control of the situation should be established by the directors and officers. There is a real demand for the wider dissemination of true cost averages. There is need for a wider application of sound cost keeping. And finally, it is evident that the situation cannot be wholly controlled without cooperation among banking institutions.

Every bank which through ignorance follows an unprofitable course has made it more difficult for other and better informed banks to establish and maintain proper service charges. The fact that there is no generally uniform practice indicates to the public that the service charge of the one institution is an illogical, an exorbitant charge, for does not the other bank continue to stay in business while making no such charge? The situation is one which some banks feel they cannot or dare not meet without the cooperation of their competitors. Consequently the operation of one bank by guess rather than by facts may cause a better informed competing institution to continue rendering many of its services at a loss.

Human Nature is Fair

SO successful, however, has been the experience of banks which boldly stepped out and independently set up a fair system of charges without regard to the practice of banks in their community, that the future trend now seems well defined. In many cities, clearing-house associations have adopted such charges. Since it is fair and profitable for a bank to make the proper charges—since the net income of banks is constantly narrowing and is, therefore, in increasing need of new profit sources, and since failure to make adequate charges really constitutes a discrimination by the bank against its most profitable customers, it seems certain that reasonable charges for services will be established generally. Many banks, in fact, favor a uniform system of such charges the country over.

As to the disadvantages and dangers which it was feared might result from the application of service, float, and other charges, these are noticeable chiefly for their absence. It has been found once again that human nature is esentially fair. When the bank has put the case fairly to its customers, they have, almost without exception, indicated their willingness to pay the bank for every service rendered. Only an occasional account has been lost, and this has usually been one of those which by nature is shopping around, attempting to place an unprofitable business where it can take advantage of the bank's ignorance of costs.

Surprisingly Good Results

CURRENT reports from the field include many encouraging instances of the application of proper charges for service rendered, usually with results surprisingly good from the viewpoint of profits. As other banks study these cases and apply the lesson to be learned from them, what already appears as a general trend should become well nigh universal.

Recently in a bankers' meeting, a banker in the Northwest explained how he had added $8,000 a year to his net profits—16 per cent on his capital of $50,000—through the introduction of service and float charges and a reduction of interest paid. Since then he has been deluged with letters from other bankers wanting to know how he did it.

A bank in the South discarded a flat service charge on checking accounts which averaged below a certain amount and in its place installed a system based upon the number of checks drawn compared with the average balance.

In a few months it had lost a number of unprofitable accounts, but the balances in those remaining more than made up for those lost, and the average balance climbed from $95 to $154. In addition, the charges assessed rose from $500 to $1,300 a month. One other bank in the city has followed suit and the others are contemplating similar action.

Scan the Expenses

A FEW years ago flat service charges were claiming the attention of bankers seeking to make accounts pay their own way. Now, it is the per item charge which is in the spotlight.

The tendency of bankers to scan their expenses and profits more closely has been noted by a number of speakers and writers lately. The knowledge that deposits have been climbing six times as rapidly as profits has focused attention upon the necessity for remedial measures. Taking their cue from the successes achieved by cost accounting and scientific management in industry, the management of many banks has sought to apply similar methods to their own institutions. These efforts have taken the form of account analysis, introduction of more efficient operating methods, elimination of unprofitable, free services and the application of equitable charges on certain classes of business.

Under the leadership of the Clearing-house Section of the American Bankers Association 12,000 banks in 3000 communities are now making service charges. Along with this movement

interest has developed in the per item charge, which seeks to remove the inequalities which frequently result from flat charges by applying the charge directly to the items handled.

Beyond Its Infancy

TO discover the progress which has been made in this direction, and to make available for all banks the results achieved where this plan has been tried, a country-wide survey has been made by the Commission on Banking Practices and Clearinghouse Functions. This survey took the form of a questionnaire addressed to banks in all parts of the country. The present article is based upon the replies of nearly 1000 bankers to this questionnaire.

That the movement is beyond its infancy and has reached the stage of lusty adolescence is indicated by the fact that 36.8 per cent of the banks replying stated that they are now making per item charges of one sort or another. Many others are thinking seriously of installing such a system of charges. It is interesting to note—the opinions of many to the contrary—that the southern section of the country reported the largest percentage of banks employing per item charges. The figures below show the percentage of banks in each section of the country which reported making such charges on checks payable in other cities:

	Per Cent
Southern States	62.2
Western States	34.6
Middle Western States	30.2
Eastern States	16.2

Of those who made such charges, a number report certain conditions under which they are made, such as: "Charge only non-customers," "charge only when check is cashed," "do not charge for items on certain large cities," "charge on non-par points," "charge when balance is not large enough to absorb cost," "charge interest accounts only," "charge on items over $25.00," "charge business concerns only."

Involve a Handling Charge

STATEMENTS from many banks replying in the negative on this matter were similar to one which said "Make no charge but fully realize we should."

The movement has apparently made little headway as far as charges on local items are concerned. Only 9.2 per cent of the banks were found to be making a charge on items payable in the cities in which they are located. Of course, such items do not possess the element of float as do those which are drawn on other points. They do, however, involve a handling charge and banks which analyze their accounts frequently reported the inclusion of a charge to cover this cost.

A great variety of methods of figuring per item charges was revealed by the replies to the questionnaire. The results obtained were essentially the same as those discussed in the article entitled "Make More Money on Float," which appeared in the August issue of the AMERICAN BANKERS ASSOCIATION JOURNAL. Essentially, there are two general methods of arriving at such charges. One is a flat charge of five or ten cents per $100 on the amount involved; the other is a more equitable method which considers the interest on the item while it is in the process of collection together with a fee for the trouble and expense of actually making the collection. These methods, of course, apply to out-of-town items. Where a charge is made on local items it represents an attempt to fix the cost of banking service directly upon the individual accounts. Many banks feel that local checks should be taken care of as a matter of good will in the general expenses of the commercial department. It is a fact, however, that there is a certain amount of extra expense even in connection with the collection of city items, and from the replies received on this question it is evident that bankers are carefully considering whether the actual value of the good will created through the elimination of such a charge is equivalent to the cost incurred.

A Truly Pioneer Effort

IT was rather surprising to find how many banks are making charges on items drawn by their depositors. For the country as a whole, 19.6 per cent of the banks replying reported making such charges. In the South, this figure was 27.2 per cent while in the East only 12.5 per cent of the banks stated that they were imposing such a charge. Most banks have approached this question from the standpoint of the number of checks which may be cashed without causing a loss in the handling of the account. Charges of this sort are in the nature of a truly pioneer effort, for they are predicated upon an accurate knowledge of the actual cost of performing the minute details of banking service. Of unusual interest in this connection is a statement made by the comptroller of a bank in the South to which reference has already been made. He said:

"For a number of years our bank applied a service charge similar to that in effect today in many of the banks of the Southwest. Under that plan a monthly charge of 50 cents was entered on each active checking account when the average balance fell below $50. By that plan a depositor having an average balance of $45 and who wrote only two checks on his account during the month was subject to the same amount of service charge as the depositor who had a $30 average balance and who wrote fifty checks. We considered increasing the deadline to $100 or more, but after careful analysis found that we could not arrive at any given figure that an active checking account should average to be handled without loss unless the activity of the account was considered. We had made an analysis of the cost of paying a check on an individual account, also the profit that could be realized on our individual deposits, and the results showed that we could pay, without loss, one check for each $10 average balance, and that the actual cost, or loss, in paying each excess check was 3 cents. We gave our idea a try-out and found that it worked perfectly.

"Under this plan a charge is entered one month covering the previous month's service; however, we have experienced little difficulty by reason of this necessary delay in entering the charges. Our form charge slip reveals the complete computation of the charge to the depositor in that it shows the average balance of the account, the total number entitled to have paid without charge, and the excess number on which the amount of the charge is based at 3 cents each. On the reverse side of the form is printed a brief explanation of our service charge plan. We have experienced very little difficulty in applying this form of service charge. Our depositors also understand that they can regulate the amount of their charge by one of two methods—increasing their average balance or reducing the number of checks they issue — and the bank naturally will benefit either way; or if the depositor should elect to continue as in the past the bank at least will break even on the account by charging for the service rendered."

Imperative Need Indicated

AS an example of the manner in which banks may go from one extreme to another in this matter, there is the case of a clearinghouse association in New England where in the past no service charge of any kind has been made by the member banks. Now, however, it is planned to initiate a charge of 50 cents or $1 per month, with a minimum balance requirement of $200 or $300, and an item charge of 5 cents on each item beyond ten or twenty checks.

The imperative need for an accurate system of cost analysis is indicated by the statement contained in one of the questionnaires, which was as follows:

"A little over a year ago a large number of the local firms were considering using the payroll-check method, and at that time a committee was appointed to determine what charge, if any, the banks should make in handling payroll items. We were the only bank that had figured its costs, and the only quick method we could use to arrive at a fair estimate of the cost of handling an item by taking the total expenses of the commercial departments of all of the banks and divide by the total number of items handled. Using this as a base we found that the cost per item ran from about 5¾ cents to 11-1/3 cents for the different banks with an average of 9-1/3 cents. The banks with a higher cost would not believe their own figures, and it was with great difficulty that we got them to agree to the charge of 5 cents per item, or a balance without interest of $50 for each payroll name."

As might be expected, clearinghouses are taking the lead in the matter of installing such charges. For the coun-

(*Continued on page* 634)

Back of the Bank is the Farm

THE first industry of man was agriculture. With the development of this industry came trade. With trade and commerce came the Bank.

Agriculture still remains the basic industry on which depends the prosperity of modern Business and Banking. The outstanding economic problem of the day in which every banker is interested is stabilization of farm prices and profits.

The Country Banker is even more vitally concerned. He is directly dependent upon the income of the farmers in his community and his responsibilities to them are more intimate and more specific. His judgment in the matter of financing and credit largely determines the farming trend in his community and the progress of individual farmers.

Bankers familiar with practical farming know that efficient machines are essential to profitable farm operation. They recognize the growing necessity for wider use of machinery and mechanical power in order to produce more efficiently and at lower costs. Farm prosperity, therefore, will depend more and more on the judicious investment in operating equipment.

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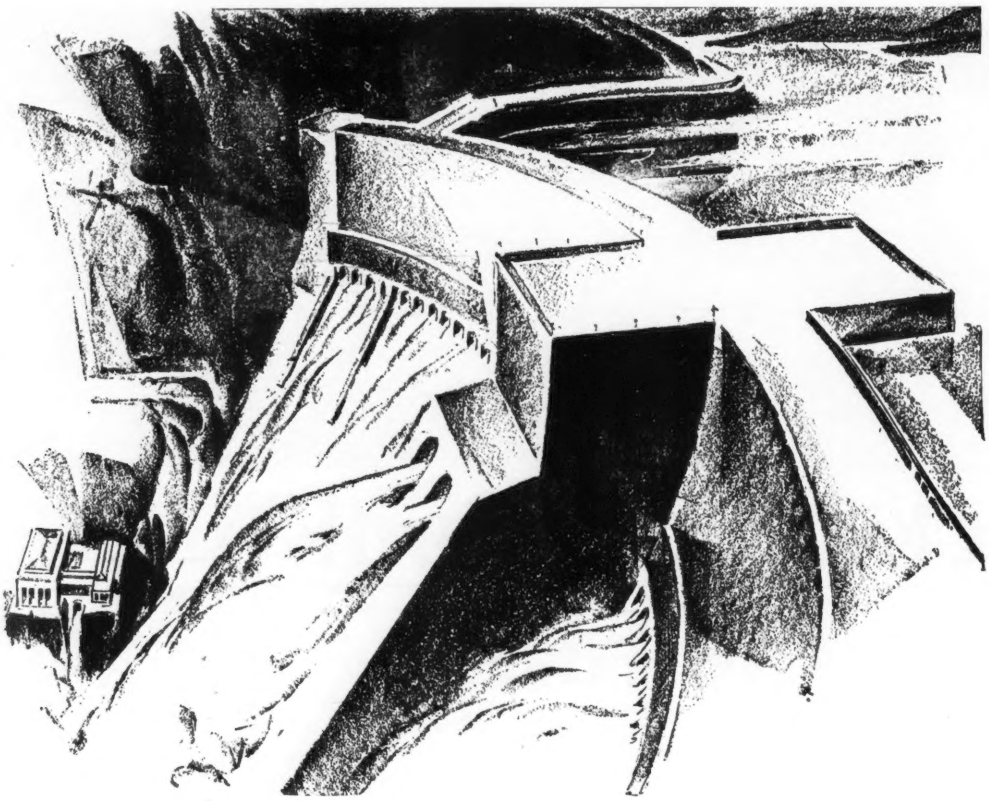

Impounding the Experience of Men

Where small streams once flowed, great dams have risen. But always the success of impounding enterprises rests finally, not only upon the concentration of the resources themselves, but also upon the wisdom and experience that are devoted to their most effective application.

The greater the power of impounded resources, the more imperative it becomes to impound the abilities of outstanding men to control and administer them.

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How Will These Changes Affect the Customer?

By WALTER E. SPAHR
Professor of Economics and Banking, New York University

A Consideration of the Position of the Customer in the New Set-Up of Banking Now Being Made. Difficulties in the Way of Generalizations. Foreign Practice Not Applicable. A Contrast of the Difference Between Town and Country Needs.

IN the rather recent development of consolidations, branch banking, chain, and group banking we are witnessing changes from a unit banking system to a type of banking that is new to this country in the sense that it has not existed in any great extent since the Civil War. This change has raised the query in the minds of many people as to how the customer will be affected if the new developments continue along the lines indicated at present.

To answer this question one naturally looks for light to those countries in which banking concentration is most highly developed. While something of an answer may be found there, it should be observed that generalizations from what exists in other countries are not necessarily applicable to our situation. The lesson seems to be pretty well learned that what is good in banking in one country is not necessarily good in another. Business and social practices of a country become adjusted to a country's banking system just as a country's banking system, through evolutionary changes, tends to become adjusted to the country's business needs. If a matured system is well administered it probably will work rather well regardless of the type. It seems reasonable to suppose, therefore, that if a new system of banking is introduced rather suddenly into a country it is hardly logical to expect that business practices will respond in exactly the same manner as in a country in which the system is indigenous. For this reason it would seem that lessons derived from foreign experiences must be accepted only within limits and that, to a large degree, an analysis of what may happen to a bank customer in this country, if bank mergers continue, falls largely in the field of conjecture. It seems impossible to gather any quantitative data that will throw light upon the problems in hand.

Concentration in a Variety of Forms

ANOTHER limitation to safe generalizations is the fact that banking concentration in this country is assuming a variety of forms; not merely mergers, but chain and group banking also are developing. The effect on the customer may not be the same in each instance. Furthermore the effects on the customer of branch banking in a large city are not necessarily the same as that felt by the customer in smaller towns or in rural districts as a result of statewide or nation-wide branch chain, or group banking. The problems are not the same in these different instances and the generalizations applying to one type of concentration may have but limited application to another. Still another precaution is necessary: What may be true relative to the functioning of one type of banking in one community may not be true of its functioning in another.

Most of the discussion with respect to concentration has concerned itself with the development of branches, including chains and groups, outside of the parent cities. Few persons appear to feel any concern as to consolidations within large cities. So long as branches are maintained for the convenience of the depositor in the various sections of the city he has little about which to worry. The selfish interests of the bank and of the customer appear to be mutually beneficial in the large city. The depositor wishes to avoid long distances to his bank in order to conserve his time and because of modern traffic problems. The parent bank is anxious to extend its branches into every section that offers an opportunity for profit. The usual arguments, concerned with local interests and community pride which are urged in behalf of unit banks, do not have much weight in large metropolitan centers. Population may be too transient in nature, or the powers of local government too limited, to permit of much development of local pride or interests.

As to Few Loans

THE possibility that the interests of the customer will not be cared for seems remote. Sometimes it is urged that large banks with branches will make relatively few loans on character and will exact a relatively heavy amount of collateral for loans in contrast with what a local unit bank will do. Certainly part of the development today seems to be in the opposite direction; our large banks with branches are competing with the Morris Plan Banks and are encouraging lending on the security of properly indorsed promissory notes. The idea that branch banking will curb character loans supported by two or more indorsements is not well founded, particularly if one considers that the oldest branch banking system in existence—the Scottish—has emphasized just this aspect of banking in its system of cash credits.

It appears, therefore, that the customer has nothing to fear from the growth of branch banking within large cities. For this reason the remainder of the discussion will confine itself to an examination of the possible effect on the depositor of state-wide and nation-wide branch, chain, and group banking.

Let us consider first the possible effects upon the various kinds of customers of state-wide and nation-wide branch banking. It is urged that the large customer, whether individual or corporation, is benefited since the bank is able to accommodate him practically to any extent. This contention seems valid.

In the second place it is insisted that any customer, large or small, can obtain all types of accommodation at the one bank and that these can be rendered under more economical conditions than obtain in the smaller specialized bank. The general overhead expense per department is less; the bank will employ specialized experts; and the customer should find it more convenient to do all varieties of business at the one place. These arguments, likewise appear to be valid.

It is believed, also, that fewer and larger banks, doing a diversified business, under expert management cannot handicap a customer in those sections of the United States that possess good roads and automobiles because of the possibilities of competition. Against this argument, however, is the one of auto congestion in larger towns, particularly county seats during week ends and times convenient for farmers and others to reach the larger centers. The evidence seems to indicate that in general there is enough of the competitive aspect under the usual system of branch banking to insure the protection of the customer.

Carrying Frozen Loans

THEN there is the conventional argument that there are times when unit banks which are financing one type of industry acquire so many frozen loans that they cannot liquidate and consequently collapse, whereas a branch banking structure could carry these frozen assets until they could be liquidated with relatively little loss. To have his local bank stand up under such conditions undoubtedly appears beneficial to the local man. There is the infrequent opposing contention that these periodic enforced liquidations of small unit banks which have become involved in unwise financing are healthier for the country than would be the practice of a big system accumulating many such burdens and lending support to an unsound economic situation which must culminate finally in a very drastic liquidation of far reaching import. Whether the latter situation necessarily follows doubtless is debatable as a general proposition, although cases may be cited, as for example in Japan and Denmark, in which crises have been the culmination of the efforts of strong banks to finance weaker ones in their economic mistakes. Under such conditions more customers doubtless would suffer than if they took their blows immediately as they occurred. However, this argument does not appear to have much validity in it since it is the chief purpose of a branch banking system to diversify and diffuse its risks. It seems to be a safe guess that there are more cases in which the diversification of banking risks and the carrying of frozen assets in certain communities through branch banking has eliminated dangerous liquidations than there are cases in which branch banking has been responsible for serious collapses.

There is also the closely related contention that there are too many extremely small banks with insignificant resources and inferior management depending almost entirely on local economic conditions. The great number of failures in this group seems to support the contention. It is quite clear that such banks which either fail or are in frequent danger of failing are dangerous for any depositor. In such cases branches of large city banks cannot be otherwise than more beneficial. And if, at any time, it were to become unprofitable to continue such a branch it could be closed without loss to the depositors.

An Easy Way to Injure the Customer

THOSE who doubt the wisdom of branch banking have contended that branch managers will be more exacting as to security in the making of loans than would local officers of a local unit bank and that fewer loans on character will be made thus hampering the worthy depositor. The answer to this seems to be that an easy way to injure a customer is to lend too freely to him. This criticism was aimed against many of the banks in the agricultural districts like Iowa in the period during and following the agricultural inflation of 1914-1920. The point was made that the trouble grew out of the fact that credit had been extended too freely rather than that credit was not available. This point appears to be well taken. Another answer to this main contention is that even though a branch may not lend as freely as a unit bank without excellent security it can lend practically without limit on good security whereas a local bank might be embarrassed by its limitations in this respect.

Opponents of branch banking insist that it tends to tie a customer to one bank and that this is undesirable from his point of view. They believe that he seldom will be able to scatter his accounts among various banks and that this places him at a disadvantage in two respects. He becomes tied closely to his bank and is dominated by it, which seems somewhat contrary to the spirit of independence so generally developed in this country. In the second place the large depositor may tend to dominate the bank which is not healthy for the bank. In this country, except in isolated communities, customers have not been accustomed to confine their banking to any one bank. Whether they would be willing to make such a change—and in some communities such a change may take place—is one of the debatable questions. The fact that such a practice prevails in other countries with branch banking, for example in Canada, does not demonstrate that our customers would like or benefit by its introduction here. It is clear of course that such a change would take place only in certain communities and, as a result, the argument does not have general application.

The question of simultaneous examination of a large branch system appears to present real difficulties. Sound banking in this country seems to imply close supervision and careful examination. But to examine a large system of branches would call for an army of examiners. Perhaps it is possible to establish the proper examining system and thus meet this argument. It is clear of course that the depositor is not protected unless genuine examinations are made.

The Inspiration of Confidence

CONSIDERING next the possible effects of chain and group banking on the depositor one notices that the champions of these developments urge that a well managed holding company will strengthen the hands of a local bank and inspire confidence on the part of depositors. This, they think, is particularly true in the agricultural districts in which the local banks have been unable to withstand the effects of the agricultural hardships. If holding companies and chain banks really will rescue the weak banks in this manner and come to the aid of depressed agriculture, then it is possible that they may be looked upon with favor.

Many believe, however, that they are but a temporary and transitional form of banking being developed to fill the gaps left open by laws restricting or prohibiting branch banking and that they embody several dangerous factors.

Should the chain systems and holding companies be mismanaged, it naturally follows that the damage done will be correspondingly greater because of the number of banks involved. Therefore while the benefits to the depositor may be greater than from the unit bank if the holding company or parent institution and its subsidiaries are well managed there is present also a genuine risk for a greater number in the case of mismanagement. It would seem, as a result, that the virtues of such systems may be obtained only when there is careful supervision over and inspection of the activities of these concerns.

It must not be forgotten, however, that these types of banking have sprung up as methods of circumventing the laws restricting branch banking and that control and a close supervision of these chains or groups extending through several states is an unsolved and a difficult problem. These developments appear to be truly dangerous unless some way is found to supervise and ascertain the true condition of such institutions. It appears that this development may carry with it the chief disadvantages found in branch banking with few if any of the advantages of the latter system.

A Place for All Types

WHILE much or most of this discussion is little beyond conjecture it may be worth while to hazard an opinion as to the attitude that might be taken with propriety regarding the development of banking concentration in this country in its various forms.

This is a country of great territorial area composed of sectional, industrial, social, and traditional differences. What may be good for one section is not necessarily good for others. Broad generalizations with respect to any one type of banking cannot possibly be of equal validity for all sections of this country. It is conceivable that a type of banking which functions well in one section might prove dangerous if inflicted upon another. If this reasoning be sound then it must follow that this country should make it possible for the various types of banking to develop according to the needs of the different sections and the different types of business demands. This would call for a relaxation of laws with respect to the development of the various types which appear to offer promise of a healthy development. For example it seems that there is no really good reason why branch banking should not be permitted to develop where it is profitable to develop it, assuming of course that there is present the proper statutes and regulations to control and insure the soundness of the evolutionary development. One dangerous aspect of letting down the bars is that a movement like banking concentration may become a fad, a revolutionary instead of

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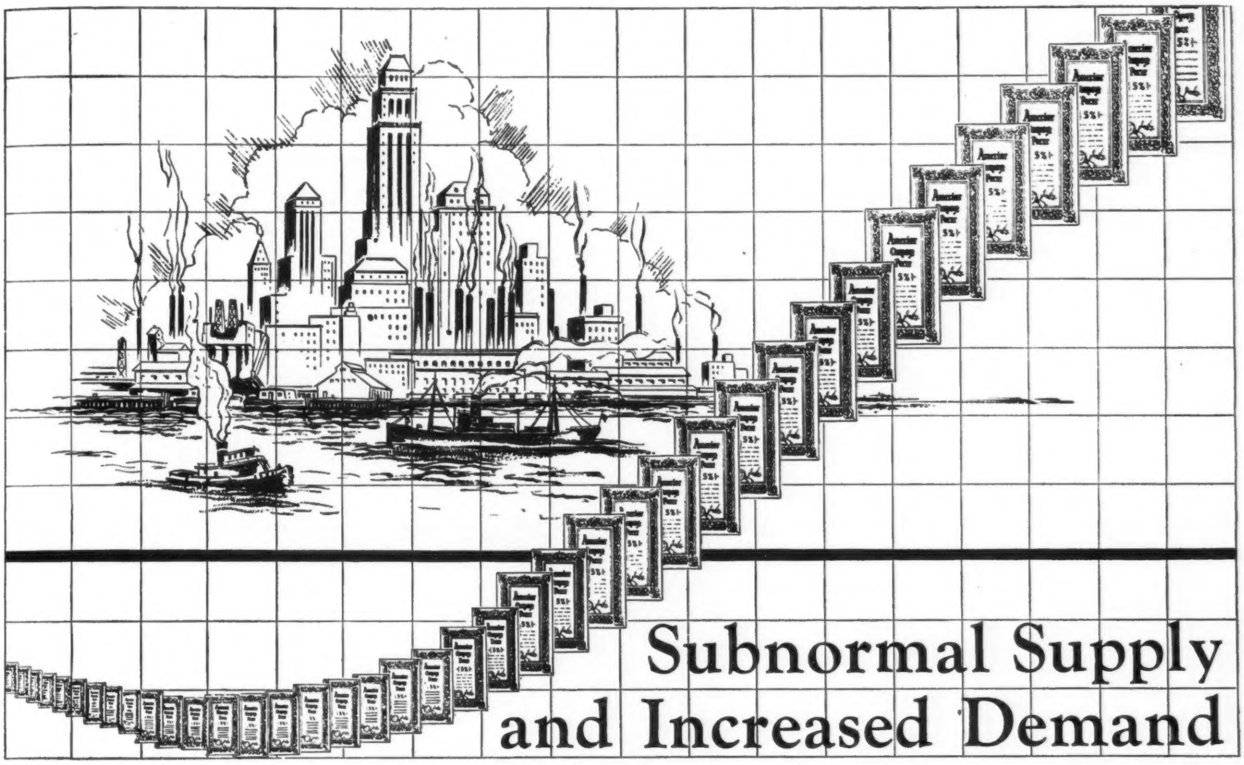

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Where the Dollar Has No Vote

By CARL WILSON

Americans Investing Blindly in Foreign Stocks Run the Risk of Discrimination Against Exercise of Voting Privileges in Most Countries Government Inquiry Reveals. Corporations in England and Germany Especially Jealous of Control Rights.

SOMETHING like an international incident was precipitated last spring when the General Electric Company, Ltd., of England sought to discriminate against its American stockholders by authorizing a new issue of "British shares" to which only British citizens would be eligible to subscribe.

Abandonment of the plan stilled what was rapidly becoming a real controversy. But the incident served to throw the flood lights upon conditions which might confront many American investors in foreign securities, unless they were familiar with the powers of the corporations whose stock has been bought. The emigrating dollar has not always had a wholehearted welcome. There have been several recent examples of attempts abroad to restrict the rights of foreign stockholders and prevent the transfer of control of domestic enterprises to foreigners.

A Government Inquiry

BECAUSE of the increasing number of foreign stocks listed on American markets, the British General Electric Company incident influenced the Department of Commerce to make an inquiry into the rights of foreign stockholders in the domestic corporations of European countries. The results of the inquiry are not encouraging to the American investor who "goes it blind" in the purchase of foreign securities.

In most foreign countries the American stockholder stands legally on a par with the domestic investor. Examination of the laws of several European countries revealed that nearly all of them provide equal rights for foreign stockholders. Spain, Rumania, Sweden and Norway have definite restrictions on foreign capital in the development of their natural resources, but these restrictions have been adopted as protective measures and are not a discrimination against any particular group of foreign investors.

It is in the treatment accorded foreign stockholders by the European corporations themselves that discrimination develops. Most countries permit corporations to make their own provisions regarding stockholders' rights, and in the absence of definite laws this practice has resulted in many private measures restricting foreign stockholders. England and Germany offer the most striking examples of this sort of discrimination, the two leading countries from the standpoint of American foreign investments.

Two Plans

AS a general proposition British companies desiring to limit the influence of foreign stockholders usually adopt one of two plans; either exclude non-British citizens, wholly or partially, from stock ownership or deny foreign stockholders the exercise of voting powers.

The case of the General Electric Company is, of course, the outstanding example of attempted outright discrimination against American investors in England. While its British stockholders were still in the majority this company, by amending its articles of association, deprived all foreign stockholders of their voting rights. Later American interests considerably increased their holdings until they owned more than a majority of the stock. It was then that the "British issue" was proposed. Immediate and forceful protest by American shareholders resulted as the new shares were to be offered to the British public on what were considered bonus terms. American stockholders objected on the ground that they were being deprived of property rights. The project was only abandoned after a lively exchange of views by the representatives of the British and American stockholders.

Another plan in England to prevent control of a company from passing to foreign hands is to limit the amount of shareholdings. Two well-known English companies have passed by-laws restricting foreign holdings to a 25 per cent limit. The Department of Commerce found that these companies recently refused to transfer on their books shares in excess of the 25 per cent stipulated, although Americans were understood to have acquired considerably more than that portion of the stock. However, under this plan and within the fixed limit foreign stockholders enjoy the same rights as nationals and know exactly where they stand.

Fear of Foreign Control

ACCORDING to the London *Economist* the important British firms that have taken measures to prevent the control of their companies from passing to foreign hands may be summarized as follows:

Imperial Airways—
No shares to be held by foreigners.
Marconi International Marine—
Foreign holdings limited to 25 per cent.
Cables and Wireless—
Same as above.
General Electric Company—
Foreign stockholders disfranchised.
Burma Corporation—
Same as above.
Rubber Plantations Investment Trust—
Voting rights limited to British stockholders.
Buenos Ayres and Pacific Railway—
Foreign (other than Argentinian) stockholders disfranchised.

British fear of foreign control of their South American companies has recently resulted in many restrictive measures. The holdings of foreigners have been in many cases limited, and many company statutes contain a clause depriving foreign stockholders of their voting privileges.

While there are no legislative provisions in German law excluding foreigners from owning stock in any specific industry or depriving them of their voting rights, as a matter of actual practice foreign purchases of German securities have often been deprived, through various devices, of the opportunity of controlling German companies.

German Methods

THE issue of plural voting shares has been common in Germany, particularly in recent years. One German organization, for example, issued certain preference shares carrying 100 times the voting power of ordinary shares. These shares were reserved to the management and persons closely affiliated with it. By resorting to a plan of this nature the management was able to prevent control of the organization from passing not only to foreign stockholders, but also to any other group within Germany.

In the case of another German company the preference shares have twelve times the voting power of the ordinary shares. In this instance voting control was obtained by a holding of 3,000,000 marks' worth of preference shares voted as 36,000,000 marks.

Other methods of defense against the control of German industry by foreigners have been press campaigns against foreign interests invading German industry and unofficial pressure through various business channels. Public opinion in Germany is very strong against what is termed "Uberfremdung"—that is, allowing German industry to pass into the control of foreigners.

Secretary Mellon Discusses Branch and Group Banking

THE time has come when it would seem wise to undertake a thorough study of branch and group banking developments Secretary of the Treasury Andrew W. Mellon advised Congress at the opening of the December session in his annual report for the fiscal year ended June 30, 1929. His views on the subject follow:

"In banking, as in other enterprises of this country, there is increasing evidence of a movement toward larger operating units. The number of branches of banks in operation has increased and more recently there has been a growth also in the number of groups in which several independent banks are operated more or less as a single system. Both of these developments reflect changes in the underlying economic situation.

Has Always Existed

"BRANCH banking has always existed in this country to a limited extent in one form or another. At the present time the Federal reserve act and the national bank act, as amended in 1927, authorize national member banks to establish branches in foreign countries, and in insular possessions of the United States, and all member banks to establish branches within the corporate limits of the center in which the head office of the parent bank is situated and in which state laws permit state banks to operate branches (with certain restrictions as to the size of centers in which branches may be established by national banks). At the end of June, 1929, state-wide branch banking was permitted in nine states and in the District of Columbia; branch banking in more limited form was specifically permitted in eleven states; and in twenty-three states the operation of branch systems was specifically prohibited.

"In June, 1929, out of a total of 8,707 member banks in the Federal Reserve System, 354 were operating 2,291 branches. This represents an increase of 130 branches during the year. On the same date 818 banks, including both member and nonmember, were operating a total of 3,440 branches, an increase of 210 for the year. The development of branch banking which is permitted by existing legal arrangements has facilitated the adaptation of banking facilities to requirements of urban areas.

"More recently there has been a rapid increase in the organization of group systems of banks. Such groups comprise one or more banks that are brought under unified control and some degree of centralized management through acquisition by an individual or corporation of a controlling interest in their stock issues. Although technically each bank in a group is a separate corporation operating with its own capital funds and under the direct supervision of a local board of directors, a certain degree of unity is achieved for the group as a whole. At the end of June, 1929, it was authoritatively reported that there were in existence at the time 230 group systems of banks in the United States, which embraced about 2,000 banks.

Hopes for Moderation

"GROUP banking is a means of accomplishing in a measure the objects of more extensive branch banking systems than are permitted under the Federal reserve act or under existing legal arrangements in most states. Although banking groups may be expected in most instances to strengthen the banks which they control, the organization of such groups places great responsibilities upon the controlling interests, and is a matter of vital interest to state and national supervisory agencies.

"In view of the fundamental economic situation which has given impetus to the organization of group banking systems and to the growth in branch banking, it is desirable that these developments be carefully studied. In the meantime it is hoped that any further extension of group and branch banking organizations will proceed with moderation, and that hasty legislation, either to liberalize or to constrict limitations now in effect, will be avoided. Our banking structure, the product of many years of experience, is part of an intricate economic fabric whose parts are closely adjusted to one another, and a too rapid reorganization would be likely to create serious and costly disturbances that would affect the entire country.

"The time has come when it would seem to be wise to undertake a thorough study of the situation with a view to determining the soundness of the present-day tendencies, and more particularly the limits of the economic units within which branch banking may be advantageously permitted."

Pitfalls in Hotel Promotion

By W. I. HAMILTON

AT a recent convention of hotel men somebody jocularly asked the question, "Who is the biggest hotel operator in the country?" After all the big chain operators had been mentioned, he said, "You are all wrong, he is the receiver in bankruptcy." There is too much bitter truth in his assertion to make it an acceptable bit of humor to thousands of people whose stock has been wiped out and to as many more whose mortgage bonds on hotels are much below par.

Every day municipalities are urged to embark upon enterprises which, it is asserted, will promote their interests. Every incoming mail brings to the desk of the Mayor, the Secretary of the Chamber of Commerce, and to other prominent citizens, prospectuses of new promotions which, if endorsed by the citizens (who will be given an opportunity to subscribe to stock) will result in ultimate increase in industry, trade, money in circulation, all of which contribute to the general prosperity. Every new development which affects large numbers of population is seized upon by promoters to urge somebody to part with money for supplying certain alleged wants. The number of towns which have been solicited to furnish factory sites and buildings with taxes free, for the manufacture of radio parts is legion. In many of these prospects the main objection is to make money for the person or firm promoting them. Just now the need for airports seems to be the popular thing to urge upon communities. Possibly the need for airport hotels will be the next stage in this development.

But the number of failures and the financial loss to tremendous numbers of people certainly indicates a terrific amount of wastefulness.

New hotels have held a prominent place in the building expansion that has gone on since the war, and although the production of additional hotels has slowed down in 1929, there are enough promotions in process to warrant the warning, "Go slowly."

THE promoter's success depends upon creating a wave of enthusiasm in favor of his project, inducing a number of influential people to work with him and to invest money. An emotional appeal to civic pride, and more or less roseate predictions of profits to be made, are the levers he commonly uses to get his project across.

While the presentation of facts will not prevent hopeless speculation induced by emotionalism and desire to large profits, there nevertheless is a measure of obligation on the part of leading citizens to have the facts at hand on which correct judgments can be based for deciding whether a stock subscription is an investment or a speculation.

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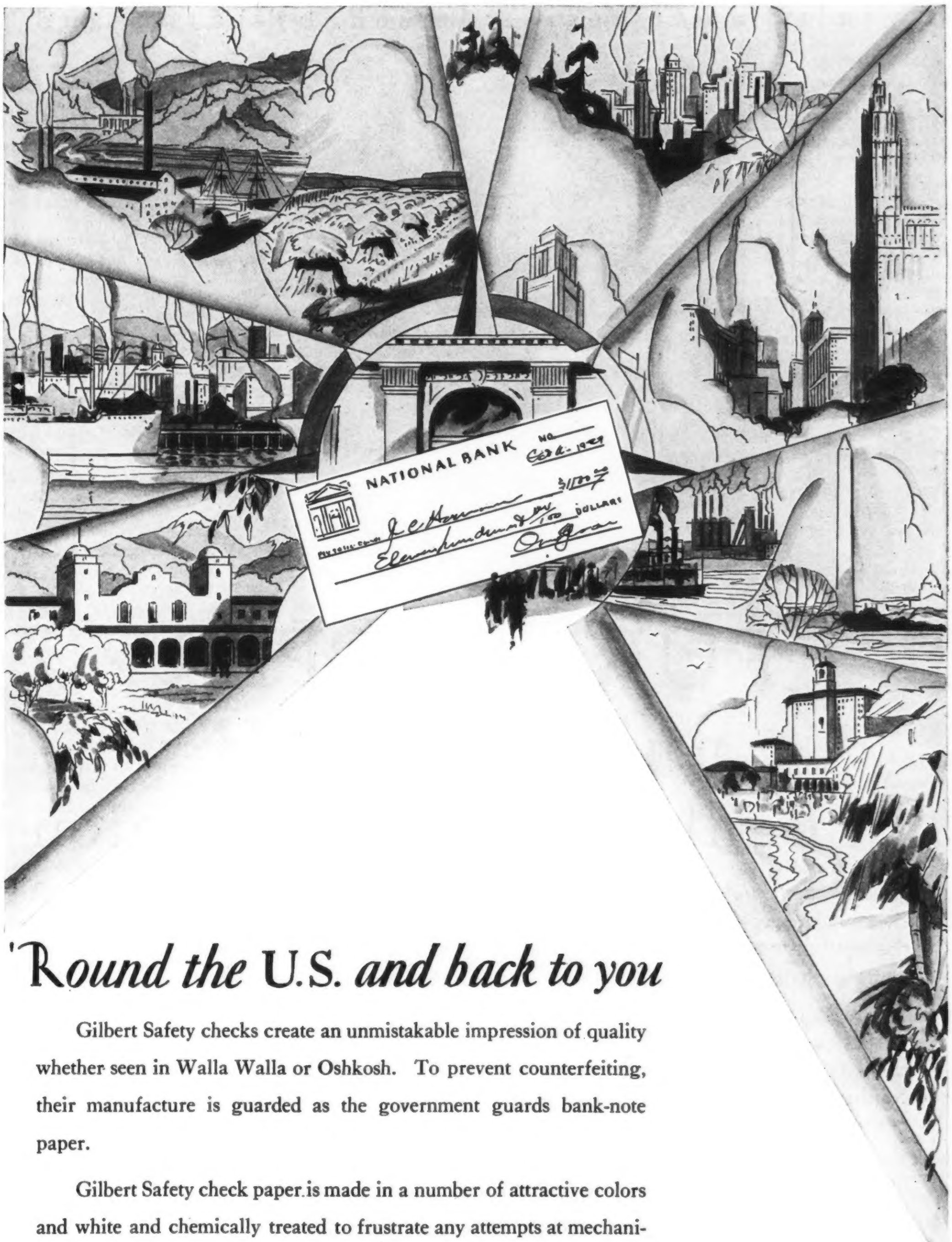

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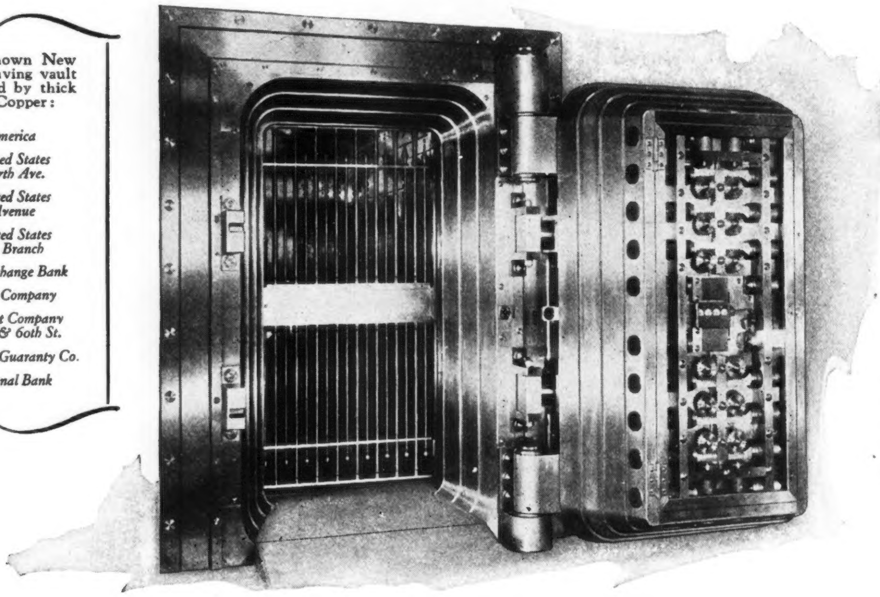

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ANACONDA COPPER

Credit Inflation and the Stock Market

(*Continued from page* 551)

eign loans in this market and the withdrawal of American capital which was temporarily employed abroad. Foreign bonds held in this country declined in price, as did all bonds, including United States Governments, and this induced repurchases to some extent by residents of the countries where the bonds were issued. This amounted to a transfer of foreign capital to this country. As rates continued to rise, and more was heard of profits being made in the American market, funds began to come from all parts of the world. Gold began to flow to this country again; until up to Oct. 1, 1929, we had recovered approximately one-half of all we had lost in the big outward movement of 1928-29. The effects in Europe were soon apparent.

By this time practically all countries were taking steps of some kind to prevent a further loss of gold from their reserves. The discount rates of fifteen of the central banks of Europe had been raised since the beginning of 1929. Our good neighbor, Canada, thought it necessary to place an embargo on gold exports, although this meant for the time being an abandonment of the gold standard.

The effect of an advance of a central bank rate in a tight money market is to raise the general level of market rates, because at such a time any increase in the supply of credit must come from the central institution. The London situation was disturbed at the time by the failure of an issuing house of some importance, and the general situation as regards British and European funds in New York was such as to cause the action of the bank to have the maximum effect. The advance of the rate was immediately followed by a depreciation of New York exchange, which showed that funds were being transferred in important amounts away from New York. London was selling and withdrawing loans and the continent was doing likewise. In this withdrawal of foreign funds is to be found the immediate cause of the break in the securities market, which came in October. The market got the money it wanted, but its success eventually was its own undoing. It became dependent upon an unstable supply of funds.

Would Pull Apart

IT is surprising that so many people should have forgotten the fundamental purpose for which the reserve system was established.

The old banking system was lamentably, disgracefully weak in every period of strain. In every period of prosperity the great body of the banks, influenced by competitive conditions, would become extended to the limit, and when such a period ended in a crisis, as it usually did, there were no reserve resources anywhere strong enough to deal with the situation. In every crisis the banks, instead of acting as a system, standing together, would pull apart, and the whole credit situation would collapse. In 1907 the banks from the Atlantic to the Pacific suspended cash payments, and virtually shut up shop until they could liquidate sufficiently to begin again.

The panic of 1907 prompted the establishment of the reserve system. The purpose was to consolidate the scattered banking reserves of the country in a few strong institutions, to be known as reserve banks, whose chief function, as the name implies, was to be the management of the reserves with a view to protecting, supporting and stabilizing the entire banking and business situation. The use which these banks could make of the funds in their case was clearly and sharply restricted. They were to be used only for short loans to aid in financing the seasonal turnover of trade, and not at all for financing transactions in stocks and bonds. The reason for this apparent discrimination is that credit wanted for moving the crops or for financing spring or fall trade is of limited amount and soon released, whereas there is no end to the amount of credit which might be tied up in financing stocks and bonds, nor to the length of time it would be held.

The reserve act was drawn with the intent of setting apart a fund devoted to reserve purposes, and so safeguarded that it never could be drawn upon and possibly exhausted by a great speculative movement. Furthermore, the reserve system itself has had some experience with a boom period—an experience carrying a very valuable lesson.

Loaded to the Guards

THE system had scarcely been established when the war broke out, and about two and a half years later this country entered the war. The reserve banks were authorized to lend on United States bonds and notes and they quickly became the principal agency of the Treasury in financing its needs. As a result they came out of the war loaded to the guards with rediscounts, secured by Liberty bonds. In 1920 came the great deflation of prices, and many of you will remember the storm of criticism that fell upon the reserve banks for their failure in that crisis to render the aid that was expected of them.

But, how could they assist anybody? They were up to their necks in the situation themselves. The strength of a reserve bank is in its reserves and these institutions had no surplus reserves. They were in the same fix as the other banks which were wanting help from them. They had nothing to put into the situation, but were under the necessity of collecting in their outstanding credits before they could grant new ones.

In view of this experience what possible defence would have been available to the reserve authorities if they had allowed reserve credit to become an important factor in that increase of brokers' loans from $3,000,000,000 to $8,500,000,000 in the last two and a half years, and how much worse might the situation have been in the last week of October if as a fact, and to the knowledge of the public, the reserve banks had been deep in that situation themselves.

An effort was made to provide credit for trade and industry and keep it out of other uses. The reserve banks released credit quite freely in the fall of 1928, but unquestionably the stock market received indirect assistance thereby. The money market cannot be divided into watertight compartments, and reserve credit cannot be released for any purpose without to some extent affecting all divisions of the money market. Its release for one purpose may set credit free for a wholly different purpose, and, in the last analysis, if the reserve banks intend to control their own reserves they must control them absolutely and business of all kinds must adjust itself to the conditions.

I think there can be no serious disagreement with the proposition that the reserve banks are right in the general policy of protecting their reserves and preventing their resources to be drawn away into employments outside the scope of the reserve act.

Long After the Fact

ANOTHER class of criticism has been directed at the reserve authorities, by parties who in the main have been their stout defenders.

I refer to comments to the effect that they might have obtained effective control of the money market during and following the great export gold movement of 1927-28 if they had moved more decisively. The point is made that this system went farther than was judicious in releasing credit in the Fall of 1927, to offset the gold exports, and that in raising the discount rate ½ per cent at a time in January, May and June, 1928, it allowed the market to become accustomed to each change before the next occurred, thus losing a decisive effect.

This now has become a case of judgment long after the fact. It is quite probable that if it was all to be done over in the light of today the action of the authorities might be different.

It is only fair also to take into account all of the conditions existing in the first half of 1927 and the first half of 1928. It was a period of declining business activity and of increasing unemployment. Much anxiety existed as to how serious the depression might become. It could hardly be otherwise than that these conditions would have some weight as the authorities confronted the question of raising interest rates. It may be presumed that there was a balancing of considerations—on the one hand the disadvantage of higher rates to business and on the other the need for

repressive influence upon the rising tide of speculation.

The Lesson

IT is a fair conclusion that if the reserve authorities expect to control credit inflation they must act decisively in the early stages of its development before it obtains headway enough to be indifferent to moderate increases in interest rates. Moreover, they must have the cooperation not only of the banks, but of the public, for we have seen that when a great inflationary movement gets so well under way that it will outbid regular business with its offers for money, vast sums will be transferred from the control of the banks direct to the market.

The greatest lesson of all from this crisis is that banking control over credit is effective only within narrow limits. All of the laws and rules that may be provided for the regulation of banks will avail nothing if the public which holds the final control over bank deposits elects to exercise that control itself. Here again, as so often in endeavoring to deal with the problems of a democratic society, we find that order and progress are dependent upon understanding and cooperation among the people themselves.

As a Banker Sees It

(*Continued from page* 549)

has known ever since he knew anything about banking the four or five reasons why banks fail. And you knew that at the time this measure was introduced. If we had honestly and consistently given the public the benefit of our knowledge on that matter this state would be $150,000 better off than it is today.

"In my arraignment of the banking profession of Nebraska for their lack of honesty and consistency toward the general public on banking questions, I do not want to condemn any political party. The Republican party would have fostered the Guaranty Law only the Democrats thought of it first, nor do I want to condemn any individual banker personally for I know that you all can in justice say to myself and to each other, 'et tu Brute'. But may I make an appeal as to our attitude in the future and if there ever was a time when it was necessary for our own safety and protection that we should be honest and consistent with the public on all banking questions that time is now.

Three Thoughts

"I BELIEVE that if we can keep three thoughts in mind, remember them, act upon them individually and collectively that we can be honest and consistent with the general public.

"The first thought is this, and I wish that I could brand it upon the mind of every citizen of our state. 'No law which violates fundamental economic principles can ever be of any permanent value.'

"The second thought is in the form of a question and I would that I could sear it into the heart and mind of every future governor and politician in this state. It is this: Must sound banking principles in Nebraska be forever sacrificed upon the altar of political expediency?

"My third thought is one that should strike you between the eyes and it is this: 'In case unsound banking laws are passed, must we stand like a bunch of sheep and be sheared and sheared until the body is incapacitated from growing any more wool?'

The American Miracle

"NOW as to the banker's attitude toward the profession itself. As a matter of fact in America banking has never been considered as a profession but rather as a business or a trade. It has always been one of the inalienable American rights for anyone who could elect himself or induce others to elect him to an officership in a bank to be privileged to fill that office. As bankers have we ever given a thought to what qualifications a man should possess before he should be allowed to play with other people's money? Have we ever done anything or said anything that would induce the general public to demand certain qualifications of a man before he should be permitted to say 'yes' and 'no'. Our answers to those questions must be in the negative.

"Oh, I understand that we have a so-called license law in Nebraska but if you can show me where that law in itself has ever raised the standard of the qualifications of the Nebraska bankers, then you can say that my hair isn't gray but its pink. What I have in mind is this. In this state before we will allow a man to put a pair of pliers in your mouth and pull out a tooth, a very simple thing in itself, we require that man to go to college four or five years and then pass a stiff state examination and yet at the same time this same state will permit any Tom, Dick or Harry who might happen to inherit $8000 or $10,000 or who might be fortunate enough to marry the president's daughter, as I did, to step right into a bank as an executive officer after a year's work and invite the general public to bring in their all and leave it in his safekeeping knowing full well that he can loan it out as he may deem best. We won't let a man work with a veterinary for a year and then give him a license to doctor cows—then why should we allow a man to run a bank without first qualifying himself at least along the theoretical lines of banking.

"I know that this idea steps on the toes of most of you and you can be sure that I am stepping all over my own toes but if each of you will just think for a moment of your own qualifications at the time you became executive officers of your bank I will warrant that none of you were nearly as well qualified to do your work as a doctor is when he is allowed to commence experimenting on the public or a lawyer when he begins to practise with the other fellow's troubles. You say a doctor is dealing with human lives—admitted—but I say to you that a banker deals with community life which he can kill with incompetency just as dead as a doctor can kill a human life and I speak from experience when I say that no lawyer ever has anywhere near the opportunity to damage his clientele that a banker has.

"Is it any wonder that banks fail—it is the American miracle that as many succeed as do. You hear all the time that our great trouble has been too many banks—that is only a small part of it—the big part of it is that we have too many incompetent unqualified men posing as bankers. We must realize that banking is not only a trade or a business but that it is a profession, a highly honorable profession, one with serious and grave duties and responsibilities and I feel that we should take the lead in educating ourselves and the general public to so regard it and to initiate a movement to require all applicants into our profession to be as well qualified as we require of other professions of like standing and responsibility.

An Undefinable Duty

"NOW just a word relative to our attitude toward our patrons. It would be presumptuous for me to tell you how to run your banks, how to make more money or how to increase your deposits. Banking magazines and convention programs are filled with numbers outlining the newest practices and devices for these purposes. May I say that while I agree with all these new profit making devices and try to practise them as best I can, yet I feel that as bankers we should be ever mindful of the fact that we have a professional duty to our patrons other and beyond the building up of strong, safe and conservative institutions and that is what I would call the duty of service.

"Our profession like every other profession owes an undefinable duty of service to its clientele and it is largely this banking service that we have rendered in a thousand different ways in the past that gives to us the positions we occupy today in our respective communities and so while there are institution service charges, no-fund-check charges, overdraft charges, exchange charges, and all the other multitudinous charges in our banks we should not lose sight of the value and importance of this other real banking service.

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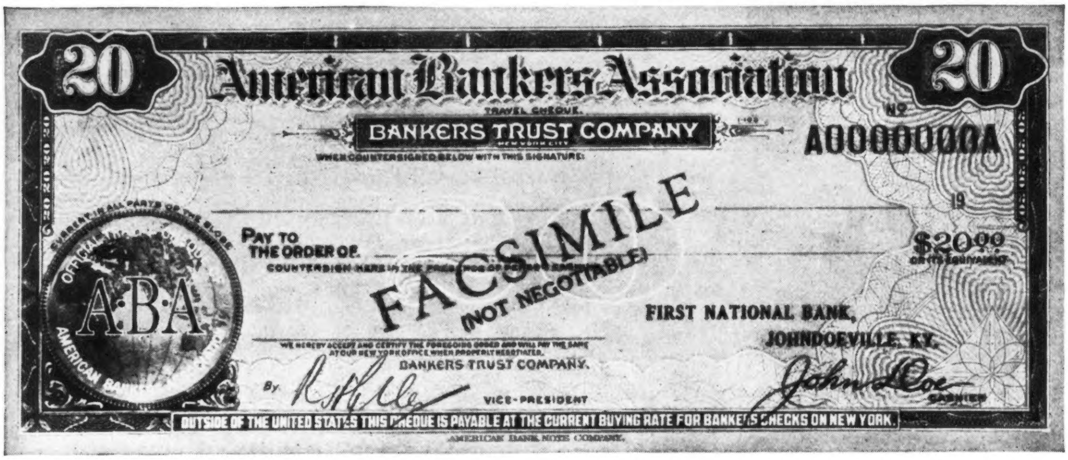

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Mr. Hazlewood has been foremost in selling the idea of scientific management to the banks of the country. It was during his administration as President of the American Bankers Association that the Mississippi Valley Conference was held at Chicago, which has become a landmark in the advancement of the science of management among American banks.

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TATE'S MODERN CAMBIST. Twenty-eighth edition. By William F. Spalding, Fellow of the Institute of Bankers and Royal Economic Society. Published by Effingham Wilson, London. New York, Bankers Publishing Co. 696 pages.

A manual of the world's monetary systems and foreign exchanges with the stamp duties on bills of exchange in foreign countries, the principal rules governing bills of exchange and promissory notes in different countries, weights and measures and bullion and exchange operations.

THE LAW OF COMMERCIAL PAPER. By Roy A. Redfield. Published by Brady Publishing Co., New York. 479 pages.

A layman's law book covering a field which is as readily explored by the layman as by the lawyer. The work covers a system which is complete within itself.

PUBLIC REGULATION OF COMPETITIVE PRACTICES. Second edition, revised. Published by the National Industrial Conference Board, Inc., New York. 311 pages.

The revised edition of this study of existing anti-trust policy in its relation to the control of competitive business practices brings up to date the discussion of the present state of the law, the regulation of price and trade relation policies, less-than-cost selling, resale price maintenance, misbranding and trademark simulation. In addition, the book contains a new chapter on the trade practice conference, a new development of significance to business men.

THE A B C OF ACCOUNTING. By Stanley Edwin Howard, Ph.D., Associate Professor of Economics, Princeton University. Published by Princeton University Press. 297 pages. Price $3.00.

This book is prepared especially for the use of college and university students who are studying economics as part of a curriculum of the liberal, as distinguished from the vocational or professional, type.

SMALL TOWNS. By Walter Burr, Professor of Rural Sociology, University of Missouri. Published by the Macmillan Co., New York. 264 pages. Price $2.50.

An estimate of the trade and culture of the small town and its place in the American economic picture which makes no attempt to follow blazed trails nor to accept orthodox views of the subject.

THIS WORLD OF NATIONS. By Pitman B. Potter, University of Wisconsin. Published by the Macmillan Co., New York. 358 pages. Price $4.00.

The author has undertaken to describe the present world of nations and of international relations, and to raise and discuss certain problems concerning the relative values of different forms of organization and action in the conduct of international affairs, at a time when efforts at international cooperation in a variety of directions are more in evidence than ever before in the world's history.

INVESTMENT BANKING. By H. Parker Willis and Jules I. Bogen. Published by Harper and Brothers, New York. 514 pages. Price $5.00.

The book has been written to set forth the principles and practices of investment banking. It aims to fill a long felt need among bankers and banking teachers for a general treatise. The book seeks to provide a comprehensive and usuable statement of the economic basis, the policies and the methods characteristic of this fast-developing branch of banking.

THE PHILADELPHIA PLAN OF HOME FINANCING. By William N. Loucks, Assistant Professor of Economics, Wharton School of Finance and Commerce, University of Pennsylvania. Published by the Institute for Research in Land Economics and Public Utilities, Chicago. 67 pages. Price $1.50.

A study of the Philadelphia plan of second mortgage financing by building and loan associations to show how much has been made available for home purchasing in that city and how.

TRUST AND CORPORATION PROBLEMS. By Henry R. Seager, Professor of Political Economy, Columbia University, and Charles A. Gulick, Jr., Associate Professor of Economics, University of California. Published by Harper and Brothers, New York. 701 pages. Price $5.00.

Development of the combination or trust movement in business in the United States and in other countries is critically discussed in this book. The anti-trust laws of this country are appraised both as to their purpose and to the judicial interpretations which have been given them. The authors do not hesitate to reach conclusions.

THE ART OF RAPID READING. By Walter B. Pitkin, professor in Journalism, Columbia University. Published by the McGraw-Hill Book Co., New York, 229 pages. Price $2.50.

The book is strictly for the busy adult who is dissatisfied with the amount of reading he does in the course of the year. It tells him how to read to get the most out of his reading and shows him how he may read more in less time than he does now.

DICTIONARY OF BANKING TERMS IN THREE LANGUAGES. By L. Herendi, managing clerk, Hungarian General Credit Bank, Budapest. Published by Sir Isaac Pitman and Sons, Ltd., London and New York. 536 pages. Price $6.00.

In English, German and French the author has undertaken the difficult task not only of explaining the merely technical expressions of banking phraseology but the many and varied forms peculiar to the banking profession and all the principal words and expressions that are in use in banking matters. While it would be admittedly impossible to comprise in one volume all the words and phrases used among bankers, the author ventures the claim that there can be found in the dictionary at least an analogy, in every way adequate, of each expression, phrase, or combination of phrases, which is not itself included.

THE STORY OF MONEY. By Norman Angell. Published by Frederick A. Stokes and Co., New York. 400 pages. Price $5.00.

From the banking standpoint, this book is the story of the tools of the trade. However, it is not a technical study but a review of the development and use of the device of money told as a tale for the average reader. As the author explains his work it is a book, written for the layman, of man's experience with this device; some of the outstanding experiments that he has tried with it; and some of the mistakes that he has made about it.

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The Condition of Business

Moderate Slowing-Down of Industry and Trade Accentuated by Stock Break. No Serious Depression Indicated. Classification of Major Lines Under Heads "Most Promising," "Good," "Fair," and "Poor Outlook." Affect of the Return of Normal Rates.

THE swift and drastic liquidation of banking credit that accompanied the collapse of the stock markets has been followed by a return to normal money rates and a termination of the speculative fever that had become an increasingly unhealthy factor in the business situation. Fears of a money panic have vanished, and fears of a serious depression in business have likewise been proved unjustified. Even before the break in stocks there was apparent some slowing down in industry, and this has naturally been accentuated. It is still too early to accurately forecast the full effect of the decline in stocks on retail trade during the next year. Judging from the factors known at the present time, business in 1930 should be fairly good, but not record-breaking. Next year will undoubtedly run below 1929, but should equal 1928, which would be quite satisfactory.

Curtailment of retail sales because of the stock break has been much less than might be supposed, for the number of margin speculators who were wiped out makes up a very small percentage of the total number of customers even in the stores of New York City, while in other parts of the country the percentage would be still smaller.

With Cheap Money

THE swiftness of the liquidation in stock prices was in most ways preferable to a long-drawn-out decline, that would have caused disappointment to security holders week after week and month after month, until a spirit of pessimism would have become firmly fixed in the mind of the entire country. There is a natural tendency for bankers and others in close touch with the security markets to overemphasize the importance of falling quotations. American business, however, is carried on not only in Wall Street but in Main Street of the cities, towns and villages of forty-eight states.

Industrial production continued to decline in December and will make the fourth quarter lower than any of the preceding three, yet there are a host of major industries that will have made new high records for the full year 1929. Reports on trade are irregular, but this is always true to some extent, and the volume of retail buying last month was kept down by the extremely mild weather as well as the stock market break. During the past few days the sale of cold weather merchandise has been greatly stimulated, and the hesitation in making wholesale and jobbing commitments probably reflects a spirit of prudence rather than pessimism.

Cheaper money will foster new business enterprise, including the lagging building industry, although a little time will be required for the savings banks to build up their surplus funds after such heavy withdrawals by depositors for purposes of maintaining margins or buying stocks outright at the bargain prices. When normal bond buying returns, a scarcity of seasoned issues and a bullish movement in prices is promised, considering the curtailment of new offerings recently and the wholesale redemption of issues previously outstanding.

Production and Trade Irregular

PRODUCTION in December for industry as a whole is running at the lowest rate for any month this year. Even before the break in the stock market the trend of production had been downward, and the financial disturbances since then have naturally accentuated the slowing down. Results for the fourth quarter will in most cases be found to be the poorest of the year, yet, notwithstanding this fact, the very excellent records achieved in the first three quarters have assured an output in the whole of 1929 that will surpass any previous year. Not all industries will make new records, but it is estimated that about one-half of the major lines will.

The best thing that can be said for wholesale and retail trade is that it is highly irregular, which means that the reports that come in are quite conflicting as regards different sections of the country or the same section, different lines of business, or the same lines. One can obtain most any kind of an opinion that is desired about the condition of business—some concerns say that it was never more satisfactory and others that it is poor, which sounds very much like the old times that prevailed before the entrance of the "new eras," about which we have been hearing so much in the last five years.

In New York City, and to a lesser extent in the ten next largest cities, there has undoubtedly been some falling off in trade since the stock market debacle. It is a proved fact, however, that not all stores have experienced a decline in sales, and a private survey just made, covering the sales of over 150 leading department stores throughout the country, showed that, for the first three weeks of November, 52 per cent of the stores were actually ahead of the corresponding period of last year. Decreased sales were reported by 34 per cent of the stores, many of which explained that the reason was not due to the stock market at all, but to the very mild weather of the first half of November. If this winter should be a long and cold one, and it is starting out that way and is certainly due, the industries supplying clothing, shoes and rubber footwear, the more substantial and sustaining types of foodstuffs, heating and lighting apparatus, hard coal, soft coal and fuel oil would all have excellent seasons, regardless of any possible depression indicated by stock tickers. Hesitation in making commitments at wholesale may not reflect pessimism, but only prudence, and the conservative policies that are almost universally followed are one of the most encouraging factors in the present situation.

The Most Promising Outlook

AT times, when reports on business are so irregular and generalizations therefore are of even less value than usual, it is necessary to investigate the position of definite industries. An interesting classification has just been prepared by the Standard Statistics Company, which divides industry and trade into about thirty-five major groups, and then arranges these into four classes according to whether their outlook is "Most Promising," "Good," "Fair," or "Poor."

Considering all known factors, and particularly to what extent different commodities are likely to be affected by the stock market break, the "Most Promising" industries at the present time include agricultural implements, chain stores, chemicals, electrical equipment, mail order, oil refining and marketing, railroad equipment, tobacco (cigarettes) and, among the utilities, electric light and power and also telephone and telegraph.

Some of these lines have a bright outlook because their business is quite apart from the stock market fluctuations; others because they will supply materials for the Hoover construction and expansion program; others because the conditions in their particular industries are improving rapidly, or have a steady, slow growth, or tend to thrive in times of general business recession because they can lower costs of production or effect economies in distribution.

Among the industries having an outlook that could be spoken of as

"Good," we might include apparel, meat packing, oil producing, railroads, rayon, steel and iron.

Demand for wearing apparel in the aggregate has a gratifying stability, yet the shifts in popularity, as between the four major textiles, often play havoc with the manufacturers of garments. Just now the vogue for longer and fuller dresses for women will call for much more yardage and will render the short dresses obsolete. Prosperous industries in America have become so not merely because of quality and quantity production, but because they have learned the secret of obsolescence. Whether or not this is entirely desirable from the broad social and economic viewpoints, there is no doubt that it is good business to change styles often enough to make last year's models out of date. This makes, or at least is supposed to make, the owner dissatisfied and positively ashamed, and the only remedy suggested is to get rid of a beautiful automobile purchased a year ago and take a 60 per cent depreciation in trading it in for a car with the proper 1930 bulges, to discard a good derby hat because this year's hats have a crown half an inch lower, to leave new dresses hanging in the clothes closet and buy an additional assortment that have the latest "silhouette" and length, to have the old white bathtub taken out and get a pink enameled tub such as the neighbors have, etc.

Meat packing companies have been operating during the last few months against a declining market for livestock, but it is likely that marketings next year will be lighter, and that prices and earnings will recover. Oil producing companies are still burdened with the excess production of crude petroleum, but consumption is continuing at its 15 per cent rate of annual increase, and the industry is steadily working into a position where demand will eventually overtake supply. Railroad earnings this year will set a new high record, due to somewhat larger traffic and greatly increased operating efficiency, but results for November and December will be disappointing because of the slowing down of general business in the fourth quarter. Rayon production is steadily forging ahead, and the quality and usefulness of the yarn is beyond comparison with a half dozen years ago. Steel and iron output, after establishing a new record this year, has tapered down to below 70 per cent of capacity, but automobile demand will pick up after the first of the year and the sales of structural steel, rails and rolling stock materials are sustaining factors.

A Fair Outlook

AUTOMOBILE truck manufacturing, also auto accessories and tires, might be spoken of as having a fair outlook, and the same is true of building and building materials, copper, department stores, fertilizers, leather and shoes, paper and tobacco (cigars).

Probably it is not generally realized that in the tremendous output of automobiles in 1929 the increase was about 27 per cent for trucks as compared with 46 per cent for passenger cars. Sales of accessories and tires depend not only on sales of new passenger cars, but upon replacements and rebuilding of used cars before they are again sold. As trucks, taxis and busses now comprise fleets by the hundreds, which run the year around in good weather and bad, the demand from this field for replacements is fairly constant.

Building construction should revive in a few months, or as soon as the money situation is completely restored to normal, for, while rates are now back to reasonable levels, the actual quantity of funds available is limited. Savings banks are large lenders of mortgage money and purchasers of bonds, but savings banks have lost heavily of deposits that were withdrawn to replenish brokers' margins or to buy stocks outright after the break, and the savings banks as a result have had more money going out than coming in, but after the turn of the year the normal increase in deposits should again put them in a position to make mortgage loans and purchase bonds. Building and loan associations have had large withdrawals also and are in a similar position. Building materials should benefit from the revival of construction, which will take up slack in the building labor situation and help sales of cement, structural steel, stone, lumber, hardware, paint, etc.

Copper mining has a fair outlook, for although the prices of other leading nonferrous metals have declined recently, the price of copper has held firmly at 18 cents per pound, and production has curtailed with shipments, so that stocks have not accumulated. Department store sales and earnings should be satisfactory. Leather is doing somewhat better now and the shoe industry is having a fair year. Newsprint prices are expected to be raised moderately. Cigar consumption is increasing, but slowly.

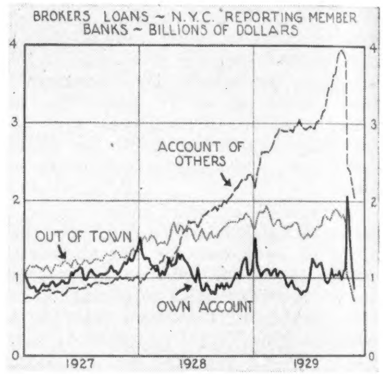
A Poor Outlook

INDUSTRIES that relatively have the poorest outlook at the present time, although numerous individual companies will prove to be exceptions, include aircraft, passenger automobiles, coal, cotton goods, lead and zinc, radio, shipping, silk goods, sugar producing and refining, woolen goods, and utilities such as street railways, etc.

Aircraft production was overdone early in the year by numerous newly organized companies which had extravagant hopes as to the rate of increase in demand, although the requirements this year are for about 30 per cent more planes and engines than in 1928—a rate of growth that is certainly healthy.

Passenger automobiles will be subject to very keen competition in 1930 because of the record production this year, and because of the business that Ford is gaining at the expense of cheap cars on new sales and expensive cars on used-car sales. The textiles—cotton, silk and wool—have all been producing at a rather heavy rate and now face hesitation in buying by garment manufacturers as well as lower fiber prices since the break in securities.

Whenever conditions in any line are unsatisfactory, the usual reason is overproduction, and this is true in radio, which has had to curtail drastically and cut prices; in shipping, which is faced with a large increase in tonnage because of government loans for construction and subsidies for mail contracts at the time when freight rates are still depressed; and in the sugar industry, that is suffering from world overproduction but has a further overproduction stimulated in this country by a tariff that gives beet sugar growers a protection of 90 per cent over Cuban sugar with a bill pending in Congress to raise the tariff still higher.



Liquidation of Bank Credit

NEVER before in American history has there been such a drastic liquidation of bank credit in such a short space of time, the most sensational change having occurred in the paying off of loans to brokers. We have referred repeatedly to the steady advance in call loans, which before the October break had reached $6,804,000,000, as compared with $4,590,000,000 one year before and $3,393,000,000 two years before. The accompanying chart shows the expansion of this type of credit, classified as to loans by the New York banks for their own account, loans by out-of-town banks (most of which represent loans for the account of corpora-

(*Continued on page* 637)

Major Financing in November

Issue	Amount	Rate	Due	Price	Yield
N. Y. C. & St. L. RR. notes	$20,000,000	6	1932	100	6.00
Harbour Comrs. of Montreal 1st gtd.	18,500,000	5	1969	99½	5.02
City of Chicago	10,000,000	6	1930	..	5.375
M. St. P. & S. S. M. Ry. Co.	8,000,000	5½	1978	97½	5.65
City of Albany, N. Y.	5,026,000	4½	1930–69	..	4.20–.70
State of Louisiana	5,000,000	5	1930–49	..	4.70–5

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We have arrangements for giving information, maps, etc., to new arrivals in California which materially aid their comfort and pleasure while in the State.

Federal Farm Loans

(*Continued from page* 547)

the Intermediate Credit Banks and the rest from the Federal Farm Board. However, the middle step seems destined to be eliminated. The existence of the Intermediate Credit Banks as independent agencies causes unavoidable duplication in the administration of the farm credit program. Experience has already shown where the new farm relief law could be improved from the standpoint of administration. It is only to be expected that the Federal Farm Board will seek to take over the Intermediate Credit Banks.

That will practically narrow the field for loans to cooperative associations down to but two sources, the banks and the government. The farm board does not intend to compete with the banks but it is hardly conceivable that the great potential borrowers that are to be set up—the national cooperative associations—will pay the going rate for money when they can get it from the government cheaper, and at most at 4 per cent.

The farm board, of course, can make no direct loans to the farmer. It must deal with the cooperative organizations only. For a while banking should benefit from the operations of the board. Advances by cooperatives out of funds received from the government should enable numberless farmers to liquidate or at least reduce obligations in numberless country banks. This is the immediate possibility. What of the long run?

The Mandate of the Law

"THE major policy of the board," says Alexander Legge, chairman of the Federal Farm Board, "will be the expansion and strengthening of the cooperative movement."

Such is the mandate of the law. It contemplates the expansion of the cooperative movement to the point where the bulk of the major farm products of the country are marketed through cooperative organizations. Farm financing would then pass from the hands of the banks to the cooperatives. The cooperatives would be financed by the government so long as other credit facilities were not "practicable."

Therein lies the immediate question for banking in the preliminary stages of the new farm credit program. Is "practicable" to mean availability or cost? In other words will be cooperative organizations only find other credit facilities not practicable when the banks are unable to loan sufficient funds for their needs or will they find it not practicable to borrow from the banks when the government loaning rate is cheaper? And the government rate can never exceed 4 per cent.

This, of course, is a question the farm board must decide. Upon its decision depends in great measure the immediate relation between the new farm credits program and the banks. However, the banks always have one great advantage over any government activity of this

character which is a quicker facility of doing business or, to put it another way, less "red tape." This facility may in the end turn the scale.

A Great Responsibility

LESS immediate in its relation to banking is the price stabilization features of the new law. The board is empowered to control surpluses of major crops by advancing money to stabilization corporations for the purpose of purchasing surplus commodities, taking them off the market and enhancing the price.

"I think the opinion of the board is," says C. C. Teague, member of the Federal Farm Board, "that this stabilization program will have to be engaged in most carefully and that when dealing with laws of supply and demand that they cannot be lightly disregarded."

Such a policy is imperative if the economic welfare of the country as a whole is to be protected. The law not only gives, but requires, wide discretion in the attempt at stabilization. The two specific sections of the law touching on the question follow:

"Any stabilization corporation receiving loans under this subdivision for surplus control operations shall exert every reasonable effort to avoid losses and secure profits, but shall not withhold any commodity from the domestic market if the prices have become unduly enhanced, resulting in distress to domestic consumers.

"No loan or insurance agreement shall be made by the board if in its judgment the agreement is likely to increase unduly the production of any agricultural commodity of which there is commonly produced a surplus in excess of the annual marketing requirements."

A great responsibility is here imposed upon the farm board, assuming that the board must stand responsible for the conduct of the stabilization corporations to whom it lends money. It must compel the experiment of price stabilization through sterilizing surpluses to stop short of any distress to domestic consumers and consequently to stop short of economic disorders.

Feeling Its Way

MEANWHILE, these sterilized surpluses which will represent the frozen loans of the farm board will be a source of constant uncertainty to the commodity markets. While surpluses are to be withdrawn from the markets they will still exist, to be fed out or dumped upon the market at some future time. And uncertainty in any field in which credit is used reacts upon credit itself.

This element of the farm program as it applies to banking is naturally intangible and will be slow in making itself felt. Yet it will be there as the expanding activities of the farm board gradually encompass all of the various functions contemplated for that body by the law. More important still will be the attitude of the board itself and the policies it intends to follow.

So far the Federal Farm Board has been feeling its way. Its working policies which will be the guides for its contacts with cooperative associations

To Bank Executives

Get the answers to these questions for your industrial customers -- or show this advertisement to bank directors, sales managers and promotion executives.

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to make more profits

Profitless prosperity comes from too much stress on quantity selling; too little thought for quality sales to right dealers, at right time, at right place, at right price; not enough attention to reducing costs in field as well as factory; too little study of markets.

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Follow the Line of Least Resistance

When money is in firm demand and reserves are difficult to maintain, the banker is accustomed to seek relief in one or all of three ways: by borrowing, by selling securities, by curtailing loans.

May we suggest an easy and effective way to supplement these remedies: Send your collection items to us and thus speed up the conversion of "float" into available funds.

Transit and collection departments in continuous day and night operation.

All items accepted at par.

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are being slowly formulated. Every indication points to their being well considered. There is equal evidence that its broader policies which will fix its place in the economic picture of the country are being thought out carefully.

Banking it would seem can expect the Federal Farm Board as it is now functioning to maintain a friendly attitude. But banking can hardly afford to forget that there is a new element in the field of agricultural credits which is national in scope and has an enormous supply of cheap money at its command.

Wealth or Money

(*Continued from page* 546)

With the growth of population, the number of savers increase by 300,000 per year, reaching 25,000,000 in 1930. The curved line represents all these savings accumulated.

Though no allowance was made for the securities already outstanding when this plan was adopted in 1910, the rise of the savings curve is so rapid that in 1923 it crosses the line representing the growth of the national wealth, reaching a total of $1,617,000,000,000, on January 1, 1930, or a sum equal to almost four times the national wealth! On January 1, 1930, Mr. Raskob would have all the original 15,000,000 savers, whose accounts alone would show $1,518,000,000,000, invest in bonds at 6 per cent. The interest required on these bonds would be $91,000,000,000, or a sum equal to our total national income! Profits and interest on capital would preempt all the national income. Nothing whatever would be left over for the wages of labor, from which continued monthly savings of $15 per month would have to be made. Labor would be reduced to slavery, but even slaves must eat!

Benefits Only Fanciful

THE plan of Mr. Raskob has, accordingly, two other disadvantages.

It is impossible. The yield on stocks would need to be so high (24 per cent), that competition would substantially reduce it. Capital flows to the points of highest return. Foreign business men and capitalists will be eager to enter such profitable lines of activity. Rivalry both at home and from abroad for the making of these valuable investments would drive the price of stocks up sharply and greatly reduce the yield.

Even if the plan should work, its benefits would be only fanciful. The apparent wealth of the outstanding securities would so greatly exceed the national wealth that a condition of general over capitalization would be prevalent, again resulting in a decreased real value of the bonds and shares.

The Ultimate Effect

THE operation of Mr. Raskob's plan, involving a general rise in the price of securities or a rising price level, would result in continuously bullish stock and commodity markets. A bull

movement does not cause an increase, nor does a bear market mean a decrease, in the actual value of the national resources. Rather the opposite is true; a bull market detracts the attention of men from their ordinary activities; a bear market, requiring a higher degree of speculative skill, will force men of affairs to desert the ticker and return to their desks.

"Before the war I went to market with the money in my pocket and brought back my purchases in a basket; now I take the money in the basket, and bring the things home in my pocket," would be as common a jest under the proposed plan as it was in the time of the Civil War and the recent European money inflation.

The ultimate effect would probably be that the average return on stocks, purchasing power considered, would be no higher than it is today. Speaking generally for industry the world over and in the long run, the return in safe stock or equity securities can average only slightly if any, higher, than the return on bonds, and cannot exceed a figure somewhat commensurate with the growth of production and of the public wealth. Mr. Raskob's plan would be successful only to the extent that it is exclusive. As a scheme of making "anyone" rich, it cannot be a success.

Paper Is Not Wealth

THOUGH paper money and securities are property and are useful, they are not real wealth. It would be possible, in theory at least, for a country to have a great amount of wealth and very little money and few securities; likewise a nation can have much money and many securities and relatively little capital and wealth. In times of monetary inflation the interest rates, which represent the price of capital, generally rise, reflecting the scarcity of capital. With the deflation of the currency the rate of interest tends to return to its former level.

National capital is the result of saving and investment. National wealth is the result of industry and labor. The twelve families who decided to do one another's laundry and send bills for their services conducted an interesting experiment in arithmetic and the clearing house principle, but they did not become rich. Neither the issuance of securities nor the expansion of money can furnish a short cut to the elimination of poverty and the universal satisfaction of human wants.

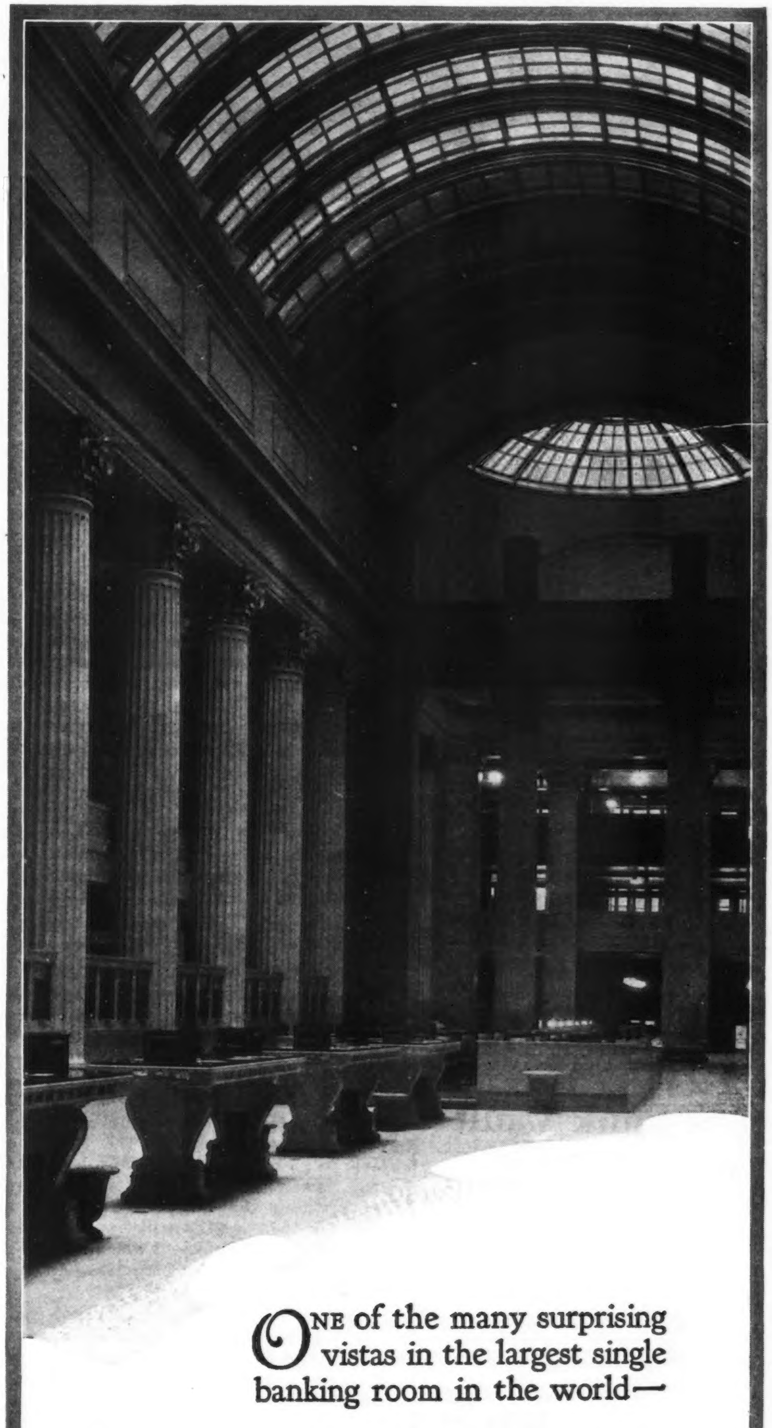
"Let us make everyone millionaires," says the enthusiast.

"If we all become millionaires," objects the skeptic, "who will do the hard work?"

"The poorest millionaires, of course," answers the economist.

Life Insurance Grows

New life insurance business written during the first ten months of the present year totaled $10,609,888,000, as compared with $10,023,573,000 in the corresponding period last year.



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Mr. Banker, when you purchased your bank vault you were sold on buying as strong a vault as your budget would afford. Your vault door may be 10" solid thickness or 36"—the thicker it is the more protection you have. The same line of reasoning applies to night depository entrances—therefore we designed 4 models each with a different protection factor.

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YEO—THE ORIGINAL ROTARY

Liability Insurance for Depositors

(*Continued from page 564*)

the painlessness is at the same time the possible weakness of the plan. If failures due to dishonesty and gross mismanagement are ruled out, it would seem that the bank in greatest danger of closing is the bank with inadequate earnings—earnings so small that, after providing for surplus and paying a small dividend, there will be little or no undivided profits of which one-half should go into the reserve fund. In such a case where the depositor is most in need of protection, there will be no accumulation of the fund, unless the stockholders voluntarily forego dividends and perhaps invest more than the required 50 per cent of the undivided profits in the designated bonds. The plan can likewise do little to protect depositors in banks which are now in a weak position.

In the long run, however, the average depositor should be benefited; and in no case is his existing protection reduced. Depositors in the least successful banks, those which now or in the future show profits barely sufficient to make the required contribution to surplus, will receive no added assurance of protection against loss, but will retain whatever benefit they now possess under the statutory liability of the stockholder. Such banks may be eliminated through voluntary liquidation, or merger, or will work upward into the class of moderately successful banks. At the other extreme are the strong and successful banks which will accumulate the reserve fund rapidly. Certain of these banks already have created the fund in full.

Like Insurance

BETWEEN the extremes are the banks with moderate earnings sufficient to build up surplus, pay a modest dividend and make a small addition to undivided profits. The new law will require these banks to set aside one-half of the undivided profits, which will be a small sum. Since a certain percentage of these banks may in the course of time to go down-hill and their depositors will then need the protection of the reserve fund, the question arises as to whether these banks will have accumulated a fund of sufficient amount to offer the depositors greater security than they have at present.

It must be remembered also that these banks have the legal right to increase the rate of dividends to 10 per cent per annum, in which case there presumably would be no remaining undivided profits, and hence no fund. It seems probable, however, that the reserve fund will be accumulated and will offer the intended added security. Pride, competition, and suggestion from the bank examiners will cause the directors in most cases to build up the reserve fund as they would voluntarily build up a surplus, even though it be temporarily at the expense of part or all of the dividends. While such a policy may not be entirely painless in all cases, it cannot be considered burdensome.

One further criticism of the plan may be suggested. Even though there is no burden involved in creating the reserve fund, does not the stockholder lose the difference between the income received from the bonds in the fund and the income which could have been earned if the same sum had been reinvested in the bank? Not unless the payment of a premium for fire insurance is considered a loss. While the analogy with insurance is incomplete, the difference in income which is foregone is in the nature of a premium the stockholder pays for the assurance that an assessment will not be made upon him in case the bank closes.

Absentee Ownership

IF banks continue to fail, and the collection of stockholders' liability continues to be only 50 per cent effective, some such plan as the one adopted by Florida would seem to be worthy of general application, especially as it involves little or no burden. Furthermore, two recent developments in the character of bank stock ownership present the possibility that future attempts to collect double liability may be even less successful than in the past.

Ownership of the controlling interest in banks is being commonly vested in corporations. In some cases these corporations are great holding companies owning many banks, while in other instances they are merely a closely held company to which the majority owners of a single bank have transferred their stock. Will such corporate ownership of banks offer the depositor as much security, especially in the event of failure, as has personal ownership of stock in the past? Or, as Mr. Woods says, will the corporation be itself insolvent if the bank goes under?

The second recent development in bank stock ownership is the wide distribution of the stock which has been obtained for some banks. This also may decrease the protection of the depositor Not only are there the alleged evils of "absentee ownership"; in case of insolvency the wide distribution of stock would mean less interest and a smaller sense of responsibility in voluntarily meeting an assessment, and greater cost of assessment and enforced collection. On the other hand it may be that a larger percentage of the owners of widely distributed stock would be solvent and hence in a position to meet an assessment if they wished or were required to do so.

These developments present a possible rather than a probable added danger to the depositor. Whether the danger materializes or not, however, the present protection afforded by double liability as it is usually enforced is inadequate.

Bank Management Conference

THERE was a notable conference in Minneapolis on Nov. 14 devoted to the general subject of bank management in which bankers from Minnesota and North and South Dakota to the number of about 800 participated. Like the Mississippi Valley conference on bank management which was held in Chicago in March the tri-state conference was characterized by an intense interest on the part of those in attendance, and by addresses, discussions and papers each of which was a distinct contribution to banking thought. Outstanding among them was the address of Fred R. Smith, Superintendent of Banks of South Dakota, on a loan policy that will maintain liquidity, in which there is an unusually logical and direct presentation of this vital matter. Mr. Smith's address is given as an article elsewhere in this issue of the JOURNAL, and its precepts are applicable to country banks everywhere. R. W. Putnam, vice-president Security Bank & Trust Company of Red Wing, Minn., and president of the Minnesota Bankers Association, the chairman of the conference so managed the meeting that all of the lengthy and valuable program was crowded into the three sessions. There was general satisfaction on the part of the conferees over the highly practical character of the discussions, and over the general utility of this type of bankers' meeting.

Reserve Board Ruling

THE Federal Reserve Board has had under consideration the question whether drafts drawn in accordance with the following facts are eligible for acceptance by member banks under the provisions of Section 13 of the Federal Reserve Act:

A firm in New York City purchases certain staples from a seller in a western city who ships the same and draws a sight draft on the purchaser in New York with bill of lading attached. This draft and bill of lading attached are sent in the customary way to a bank in New York, Bank A, designated by the purchaser. The latter then draws a ninety-day bill on Bank A, which is accepted by the bank, having at the time in its possession the bill of lading covering the staples in process of shipment. The acceptance is then discounted by the purchaser and the proceeds used to pay the sight draft and to obtain the release of the bill of lading. It does not require ninety days for the completion of the shipment of goods, only a relatively short time being necessary for this purpose. It was recommended to the Federal Reserve Board that the bill drawn by the purchaser be considered eligible for acceptance by Bank A when it has a maturity consistent with the usual and customary credit time prevailing in the particular business.

After a careful consideration of this question the Federal Reserve Board has ruled that a draft drawn by the purchaser of goods in accordance with the facts above stated is eligible for acceptance by a member bank when it has a maturity consistent with the usual and customary credit time prevailing in the particular business, provided that all other relevant requirements of the law and of the board's regulations are complied with. Under the facts stated the accepting bank has possession of the bill of lading at the time of the acceptance of the draft drawn upon it, and this is believed to be a substantial compliance

Progress and economy

Through Scientific Research

TWENTY years ago a Bell telephone subscriber in the United States could talk with a total of 5,000,000 telephones. Today it is possible for him to be connected with any one of 29,000,000 telephones in this and other countries. This vast increase in the value of the service, accompanied by substantial reductions in long distance rates, is due chiefly to the research laboratories where more than five thousand Bell System specialists and their assistants are continually searching out ways of improving telephone service and of holding down its cost to the user.

American Telephone and Telegraph Company stock is the most widely distributed in the world—with more than 450,000 stockholders. No one stockholder holds as much as 1% of this capital stock. The dividend record has been continuous for forty-nine years. The Bell System effects important economies by manufacturing its own instruments and other supplies and by the ownership of patent rights and guarantees. It maintains the largest industrial research organization in the world. It renders an indispensable nation-wide service, making possible in this country inter-communication among more than 20,000,000 telephones and more than 119,000,000 people.

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BASIC Industry Shares and Fixed Trust Shares represent a participating interest in property (deposited with the trustee), consisting of cash and a unit of common stocks of the accompanying list of nationally known basic American industries.

Dividends are payable semi-annually against coupons attached to certificates.

Fixed Trust Shares and Basic Industry Shares are sold to investors by established investment houses and banks in most of the important cities of the United States and in several foreign countries, and are wholesaled to dealers by the following firms:

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for Central section of the United States

ROSS BEASON & CO.
Beason Bldg., Salt Lake City, Utah
for Western section of the United States

with the requirement of the law that shipping documents conveying or securing title be attached at the time of acceptance.

The ruling of the Federal Reserve Board set forth above may be in some respects inconsistent with previous rulings of the board to the effect that bankers' acceptance credits should not be used for the purpose of furnishing working capital (See for example, 1920 Federal Reserve Bulletin, page 1301; 1923 Federal Reserve Bulletin, page 158.) Such previous rulings of the board with regard to working capital may accordingly be regarded as superseded or qualified by the ruling contained herein to the extent of any such inconsistencies, but no further.

Trust Division Plans

A simple system of trust accounting, designed especially to meet the needs of small trust departments, will be developed by a new committee just appointed by the Trust Company Division of the American Bankers Association. Edgar A. Jones, vice president Scranton-Lackawanna Trust Company, Scranton, Pennsylvania, has been named as chairman of the committee.

The year's program of activities of the Division in its endeavor to assist in the development of fiduciary service as now rendered by more than 3,000 banks and trust companies calls for the preparation of a handbook for the review and survey of trust securities, a sales manual for trust service and the perfection of a system whereby banks and trust companies may ascertain the cost of doing trust business.

New Book

WORLD ECONOMIC SUICIDE. By Sir George Paish, Financial and Economic Adviser to the Chancellor of the Exchequer of Great Britain, 1914-16. Published by the London General Press, London, England. 15 pages. Price 1 shilling.

A little brochure by one of England's leading economists directed against international high tariffs, picturing a state of world confusion produced by the efforts of the different countries to meet their obligations to one another over the obstacles of massive trade barriers.

Group Action

A NEW relationship is in the making between the banks and what might be called group customers, such as chain stores, railroads, express customers and other large business interests which maintain deposit accounts in institutions spread over wide sections of the country. The tendency now is toward the mutual consideration of the problems growing out of accounts of this type in place of efforts made by the banks alone to remedy difficulties arising from the handling of this type of account.

Cooperative consideration of account problems had its beginning in the work of the committee on relationship with chain stores of the Commission on Banking Practices and Clearinghouse Functions of the American Bankers' Association, scheduled to meet on Dec. 12, in Chicago, with a committee representing leading chain stores. The committee on relationship with chain stores is composed of Hal Y. Lemon, vice-president of the Commercial Trust Co., Kansas City, Mo., chairman; George S. Eccles, president, First National Bank, Ogden, Utah; Fred W. Ellsworth, vice-president Hibernia Bank & Trust Co., New Orleans; William C. Rampfer, cashier, First National Bank, Parkston, S. D.; Arthur B. Taylor, president, Lorain County Savings & Trust Co., Elyria, Ohio, and O. Howard Wolfe, cashier, Philadelphia National Bank, Philadelphia.

This committee has made a nationwide survey of chain store accounts, collecting data on whether or not they are profitable, causes of their being unprofitable where such is the case, and methods by which conditions may be changed.

What is sought is a mutual understanding between the banks and the chain stores as to what constitutes a reasonable demand on the part of these depositors for banking service and how the banks may be insured of a reasonable return for the services rendered.

Discussion of the question by cooperating committees is something new in banking. It marks a long step forward in the direction of adjustment of problems of this kind.

Banks of Japan

(Continued from page 572)

been dropped and attention been concentrated on banking. It is a popular institution and, at the last report, led the Big Five in deposits.

The Peers' Bank

ALTHOUGH not among the Big Five, passing attention should be accorded the Fifteenth Bank. It is a very old institution and because its shareholders include the Imperial Household Department and most of the nobles—some 300 of them—it is known as the Peers' Bank. In the seventies, Prince Masayoshi Matsukata was actively associated with the management, an experience probably unique in modern banking history, royal personages usually appearing as borrowers rather than lenders in the annals of banking. The Prince was active in reform and has been called the "Father of modern Japanese banking."

At the time of the Satsuma rebellion in 1877 this Peers' Bank came to the Emperor's support with a loan of 15,000,000 yen for twenty years. It never has reached the proportions of the Big Five and in the 1927 panic was obliged to close its doors for reorganization but it is a going concern today.

Hotel Promotion

(Continued from page 600)

In the hotel business there are a number of axioms, there are a number of fair tests to apply to the claims advanced during a new hotel flotation.

One of the first things to be ascertained in the financing of a proposed hotel is, what part of the total amount to be raised is to be in stock, and what part in mortgage? Experience has shown that when the mortgage exceeds 50 per cent of the completed value of the project the financing rate is likely to be very high; cases have been known where the total expense of such financing amounts to 14 and even 20 per cent.

The land value has great influence on the future profits. Ten to 20 per cent of the total value of land and building is usually enough for the land. On modern city structures the income from store rentals and the like should be sufficient to pay all carrying charges on the land, and create a sinking fund for the retirement of that part of the mortgage set against the land value. If a site is not so located as to command such rental values, then a fatal mistake may have been made in selecting it.

The greatest source of net revenue for a successful hotel is always in the rent of rooms. Regardless of anticipated profits from other sources, unless the probable "sale" of rooms will carry the operation for two to three years the enterprise is headed for trouble. Overproduction of hotel rooms has created a price competition in such a degree that thousands of rooms are rented every week at rates that do not yield sufficient net revenue to pay the financial obligations over and above operating costs. To earn a profit a hotel must maintain an average occupancy above 70 per cent. But that is only half the story. If it costs a dollar a day to get a room ready for the guest there is no profit in renting it for a dollar. The ratio of production cost to selling price is where most predictions of probable earnings fall down.

If the spending power in a given locality calls mostly for rooms at $2.50 a night, it is folly to build a hotel of such quality that an average price of $4.00 per room per day must be obtained to carry the investment because the public will not change its habits rapidly enough to avoid the receiver. That is just what has been done in many instances, and that is largely what has made the quip "the receiver in bankruptcy the biggest hotel operator." Hotels that represent a capitalization of $5,000 and more per room may be all right on some fine streets of a great metropolis but they are out of place in the small towns.

Every hotel proposal should be analyzed by persons with expert operating knowledge. At every stage of the project from the determination of the need for additional hotel accommodations, the type and design of building, the financing, furnishing and management, operating knowledge is essential if mistakes are to be avoided.

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CAPITAL, SURPLUS AND UNDIVIDED PROFITS MORE THAN $285,000,000

The Operating End of Bank Mergers

(Continued from page 554)

One of the Chicago banks in moving chalked on the floor the tag number assigned each piece of furniture. Therefore no questions had to be asked by the movers. If they had a desk tagged No. 12, they had only to find a floor space chalked No. 12, and there deposit the desk.

In one of the prominent mergers, both banks moved into a new building. In that moving a color scheme was adopted —a different color for each department. Large colored tags were placed on every piece of equipment. Bank men who had been coached on the color scheme were stationed at the door, in all corridors, near the elevators, near the stairs. As the movers carried in a piece with a blue tag on it, these traffic directors indicated the exact floor and department where it belonged.

With all the problems of moving and merging, it must be remembered that it is not the employees or the stockholders which make a bank, but the depositors. If business is not held no economies of operation will offset the damage.

The general experience is that business can be retained. The only danger is over-certainty for there is a period before and after a consolidation when the depositors are making up their minds and in this period an ill-advised remark from a teller may lose half a dozen accounts. Meetings should be held to school every employee who meets the public on what to say and how to say it. Tellers should start weeks in advance to explain the consolidation to depositors.

Every effort should be made also to give rapid lobby service and to make it possible for customers to continue dealing with the tellers with whom they are acquainted. Five or six direct mail pieces should go to every customer.

Credit lines for customers doing business with both of the merging banks should be reviewed in advance, amounts set, a decision made as to the officer who will handle, and the whole matter talked over with the customer. Aside from these joint accounts, each borrower should be permitted to continue for some time with the same officer with which he was dealing.

On one of the Mississippi Valley consolidations a widespread advertising campaign selling the consolidation to the general public was found to be very useful. In California one of the big systems impresses on every officer of banks being taken over that the big job is to hold every customer.

Installment Credit

(Continued from page 556)

natural result of the fact that finance company notes are secured by a vast number of underlying notes of different makers, so that if reasonable and customary care has been used in investigating these makers, there is practically no possibility of enough of them defaulting to jeopardize the solvency of the finance company. It is apparently true that even when finance companies have failed, no bank has ever suffered any substantial loss as a result.

The business of a well managed finance company is like that of an insurance company, in that the risk is spread over a very large number of contracts. Well managed life insurance companies do not fail because, while the duration of any individual life is highly speculative, the average expectancy of a large number of lives is a matter of mathematical certainty. Substantially the same condition exists in fire insurance and in the numerous other insurance lines. It is true that the predictability of losses is sometimes upset by the occurrence of an unusual catastrophe such as an epidemic in the life insurance field, or a conflagration in that of fire insurance. Even these rare events, however, can be provided for with sufficient accuracy to make the possibility of failure extremely remote.

In the finance field a similar possibility of extraordinary losses lurks in the occurrence of severe business depressions. The question then arises whether the danger from this source is

more formidable than those to which insurance companies are subject, or rather, whether it is sufficiently formidable to constitute a really serious hazard. It is commonly said that the answer to this question must remain doubtful until after the next major business depression, because the growth of finance companies is so recent that there has been no experience to show how well they can weather the storms of such a period. This lack of experience is by no means so complete as is generally assumed.

Assets Are Never Tied Up

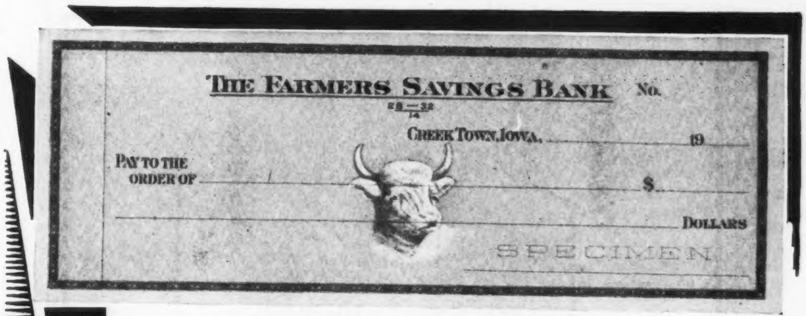
THE latest general business depression, which also was the most serious of modern time, began in the latter part of 1920, continuing throughout 1921, and well into 1922. It is generally assumed that practically all the finance companies have come into existence since that depression, but the facts are otherwise. In a recent study made by the National Association of Finance Companies, data were secured in regard to 302 companies doing business at the close of 1928. Of these, sixty-four companies began business prior to the end of 1920. These sixty-four companies, at the end of 1928, had 78 per cent of the total number of employees of the entire 302 companies. Inasmuch as all the large companies are included in the returns, it appears probable that more than three-fourths of the finance company business in 1928 was done by companies which had operated during the big depression.

It is unfortunate that no figures are available relative to finance company failures during the depression period; we know only that these sixty-four companies passed through it without failure, and that inquiry has brought to light no evidence that any failed. In the whole course of finance company history, while many of them have proved unprofitable, very few indeed have failed so badly as to cause a serious loss to creditors. Most of the unprofitable ones have been able to sell out to competitors, instead of having to go into bankruptcy. One reason for this is that their assets are never tied up in plant or in inventory, but consist almost entirely of receivables very widely distributed.

In contemplating the effects of a business depression on a finance company specializing in retail installment paper we find that, unlike the usual commercial enterprise, it is not faced with accumulation of unsalable inventories, cancellation of orders, inability to get money to meet payrolls and failure to collect for goods sold. Practically its only danger is the inability of some of the buyers whose paper it holds to pay their installments. These buyers are nearly all farmers, wage and salary earners, or small business people, distributed among all classes and occupations. The question then is whether, among buyers of this class, a business depression is likely to produce such a degree of financial distress as will result in a sufficient volume of defaults to endanger the solvency of finance companies holding their installment contracts. Let us see what happened the last time.

At the Crest of the Boom

IN Chart 5 are two curves, "Employment" and "Payroll." They represent indexes compiled by the Federal Reserve Board relating to employment and payroll in factories and cover the period from the beginning of 1919 to the end of 1925. These curves clearly reflect the effect of the big depression beginning in 1920 and recovering in 1922. The curves are plotted in per cent of the 1919 average for both employment and payroll. Payroll touched 130 at the crest of the boom in 1920 and dropped to 80 in 1921. Employment did not swing so far. In particular it did not go so high, but it too went down to 80 in 1921. The depression of 1921 was the most severe of recent times. It seems a fair conclusion, therefore, that unless we have another great war, business men now living will not see a year in which factory employment will drop as much as 20 per cent below normal. Factory employment decreases more during de-



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"Most of Iowa's 'tall corn' goes into livestock," said an Iowa Banker.

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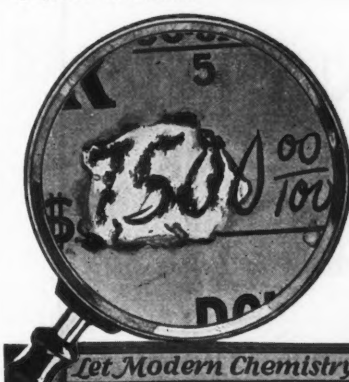

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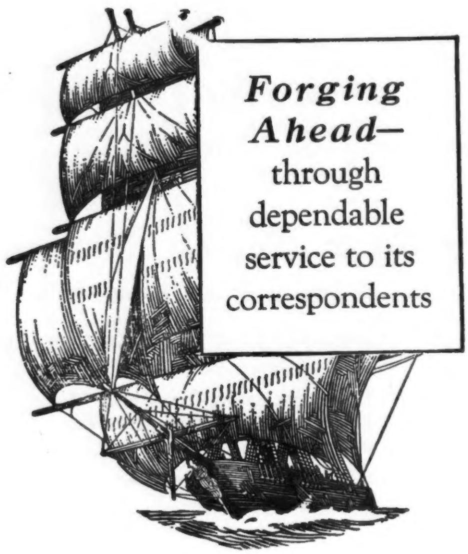

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pressions than any other large field of labor in which people make a livelihood. Farming, trading, transportation and building, with the electric light, gas and telephone services, suffer less than manufacturing. Some businesses are even benefited.

Note particularly that the drop in employment in 1920 and 1921 did not occur all at once. It was spread over ten months. What happened, undoubtedly, was about as follows. The depression came on gradually. The first people to be laid off were the least valuable, the low paid, the inefficient, the unreliable, the beginners. This class was not carrying a very heavy installment burden. The credit inspection methods of finance companies prevented them doing so. Other employees, observing these dismissals, began to feel nervous. They may not have sensed the fact that a general depression was coming, but many began to doubt the security of their own jobs, and abstained from costly purchases, while those who felt secure in their positions or had other sources of income made no change in their buying habits. Thus there was some tendency for new installment commitments to diminish in volume and to be, on the average, better credit risks.

Meantime the old installment obligations were diminishing rapidly. When people who owed some of this money found themselves let out they did not, as a general rule, stop payments. Most of them had some other resources and tried hard to pay up rather than lose what they had already put in. Defaults were, of course, more numerous than in flush times, but they did not amount to anything like general repudiation. They were a very much smaller percentage of the outstanding accounts than the percentage reduction in employment.

THUS it comes about that the annals of the big depression have been searched in vain for any record of a finance company failure, although at least sixty-four finance companies came through without failing. Furthermore, no less than thirty new finance companies which still exist began operation during 1921, and twenty-two more began in the following year, making fifty-two new and successful companies formed during the depression when capital was profoundly discouraged, and would invest in nothing that was not regarded as exceptionally well safeguarded. This fact is sure proof that the finance companies then existing were making an excellent record. Both reason and experience, therefore, lead to the conclusion that in a time of depression finance company paper is an especially desirable and safe asset.

We have just had an unprecedented collapse in stock prices. It has not reduced the real wealth of the nation one iota, but it has wiped out the fortunes or the savings of many people, and has reduced the real or apparent wealth of many others. Thousands may curtail their buying in consequence.

The result will probably not be so bad as European observers anticipate. They are predicting a very depressed business year for this country. One reason why it will not be so bad as they expect is that our system of installment selling will come to the rescue. Many of those hit by the stock market will buy on installments instead of paying cash. In so far as that is done, it will contribute to keeping factories open, and trade moving, and workers employed. For just such occasions as this the country needs plentiful convenient facilities for installment financing, at moderate cost. Without doubt such financing would be easier and cheaper if finance company paper could be rediscounted with the Federal reserve banks.

Convention Calendar

Date 1930	State Associations	Place
May 8-10	North Carolina	Pinehurst
May 20-21	Oklahoma	
May 27-28	Missouri	
June 11-13	South Dakota	Aberdeen
June 16-18	Iowa	
June 23-25	Illinois	Peoria

Date 1930	Other Associations	Place
Feb. 18-20	Trust Co. Midwinter Conference	New York.
May 5-8	A. B. A. Executive Council	Old Point Comfort, Va.
Sept. 29-Oct. 2	American Bankers Assn. Convention	Cleveland, Ohio

Tip of a Match

(*Continued from page* 558)

at the end of 1928, as compared with less than $35,000,000 for the Swedish-American Investment Corporation.

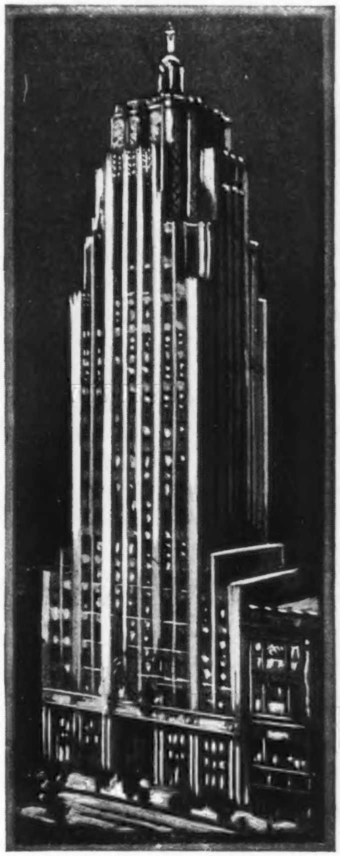
Soviets Protest

ONE of the most interesting financial aspects of the match combination is its utilization of its vast financial resources, based largely on its access to the American capital market, for the purpose of acquiring monopolies through government loans. These monopoly arrangements give the trust a legalized control of certain markets for long periods, with the solid foundation of the close tie-up with the financial systems of the countries involved. The recent arrangement with Germany, now awaiting approval, provides for a maximum period of fifty years and gives the trust a monopoly for the supply of about 70 per cent of the German demand.

The German sales organization operating under the 1927 law, by which the Swedish Match Trust was to furnish 65 per cent of the demand, did not work out satisfactorily, largely, it is claimed, because it was not a compulsory syndicate and the outsiders and the Russian producers more or less demoralized the market. The Russian producers deny the accusation of dumping, but in view of the difficulty of ascertaining cost of production under the Soviet economic system, such denials are received with a certain amount of skepticism.

There have been persistent rumors of negotiations between the Swedish Match Trust and the Soviet Government for a loan and the division of certain match markets, similar to the arrangement applying to the Soviet petroleum sales in the British market. Under the new arrangement, which is to go into effect upon the ratification of the agreement by the Reichstag and the ratification of the Young plan, all the factories outside of the 1927 sales organization must join the new organization. The price to be paid to the factories by the sales agency is definitely fixed, thereby giving the business a degree of stability that could not be achieved without the participation of the government.

It goes without saying that the arrangement has met with severe criticism on the part of the Soviet Government, as it will mean a practical exclusion of Russian matches from the German market. The Soviet foreign trade organ in Germany has denounced it as a hostile act against the Soviet Government. Incidentally, it should be pointed out that matches, on account of their characteristics, such as universality of demand, convenience, low unit price, etc., have always been regarded as an ideal object for government monopolies, so that the trust was not under necessity of selling a new idea to the governments involved. As stated by a British author, "it has attracted the cupidity of various Chancellors of the Exchequer," and probably will for some time to come.



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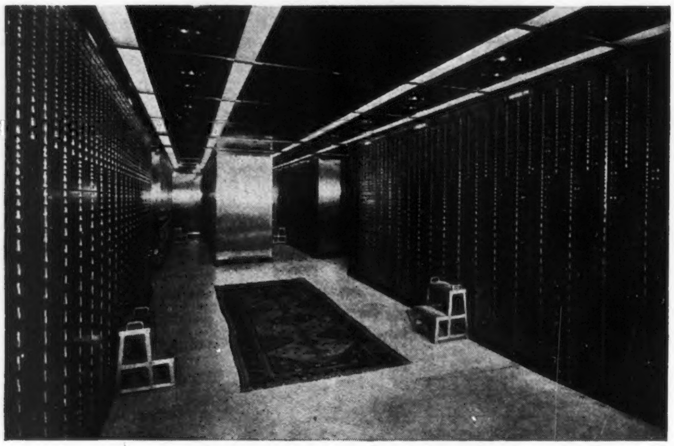
From An American Standpoint

THE match manufacturing and distributing functions of the combination are concentrated largely in the famous Swedish Match Company. This company, which is also in the form of a holding company, controls all the subsidiary match, chemical, machinery, lumber and other plants in Sweden, as well as the manufacturing and sales organizations in a number of foreign countries, including Great Britain, Germany, China and Chile.

Of particular importance from an American standpoint is its control of the International Match Company, which manufactures the bulk of the matches consumed in the United States as well as supplies most of the imported matches through the Vulcan Match Company. The assets of the company were given as over $200,000,000 in a recent prospectus.

The International Match Company, in addition to its importance from the standpoint of supplying the domestic market of the United States, is the holding concern for the majority of the shares in the foreign holdings of the Swedish Match Company, and is the main channel for the flow of American capital into the expansion activities of the trust in the way of foreign match

A "STAINLESS" VAULT



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METAL surfaces in this vault radiate beauty . . . Stainless Steel, the incorruptible . . . Many times tougher than ordinary steel and positively immune to rust, tarnish and corrosion.

Stainless Steel has *enduring beauty*, its brilliant lustre lasts forever, no polishing is ever required . . . Defying weather, wear and temperature, it offers new possibilities in every line of business . . . possibilities that have become actualities in Vault linings, Safe deposit box doors, Golf clubs, Cutlery, Automobile parts, and numberless other products.

Genuine Stainless Steel is manufactured only under the *patents* of

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STAINLESS STEEL

monopolies and the resulting government loans.

An illustration of the important functions performed by the International Match Corporation is furnished by the particularly interesting financial transaction which took place in November, 1927. After an unsuccessful effort to negotiate a match monopoly with the French Government, the Swedish Match Company obtained a partial foothold in the French market as regards the supply of machinery and technical assistance, splints and imported matches. In return, a 5 per cent loan of $75,000,000 was advanced to the French Government, which utilized it to retire the 1920, 8 per cent, loan in the United States. Incidentally, $50,000,000 was furnished by the American market through debentures issued by the International Match Corporation. It is no secret that at the time of the transaction France was not in a position to carry through a conversion operation by a direct appeal to the American money market.

AT present, the match trust has absolute monopolies, based on legal sanctions, in nine countries, not counting the arrangement with the French Government for the supply of certain materials and imported matches, or the partial monopoly which will result from the negotiations with Germany. This, of course, does not include the partial control of numerous markets through ownership of the principal match plants, as is the case in the United States, Canada, Great Britain and certain parts of the Britsh Empire. The monopoly agreements are generally for long periods, up to fifty years, thereby giving the industry a degree of stability enjoyed by few concerns.

Matches, by the universality of their use and adaptability to standardization and mass production make an ideal basis for a large scale industrial combination. These inherent characteristics, combined with the financial policy calculated to secure monopoly markets, are in themselves sufficient to account for the present position of the match combination. On the other hand, some attention should be given to the possible falling off in demand on account of the competition of other media. Electricity, for instance, has already displaced the match to a considerable extent for lighting purposes. The tendency toward the use of oil, gas and, sooner or later, electricity for heating purposes, is likely to cut down still further the domestic use of matches, while the lighter is competing in the smoking field. It is hardly necessary to add that this possibility may not be of immediate importance, considering the extent of the undeveloped parts of the world where matches are still more or less a luxury.

Another field for speculation is suggested by the structure of the trust. It is generally admitted that the Swedish Match Trust is largely the creation of one man, Ivar Kreuger, who has shaped it in such a way as to retain personal control, in spite of the enormous financial expansion of the organization. The success of the enterprise and the degree of confidence in the leadership of Kreuger has thus far made it possible for him to obtain the support of the world's financial centers without surrendering control. The future of a dictatorship, whether economic or political, is always a fascinating subject for speculation; in the case of the match combination there is the additional interest derived from the predominance of American capital.

Anomalies in the Bond Market

(*Continued from page* 559)

pansion of our foreign investments? From a total of $3,903,000,000 in 1914, our overseas trade grew to the impressive figure of $9,220,000,000 in 1928, while our investments advanced from $1,276,000,000 in 1915 to $2,096,000,000 last year. It would therefore appear reasonably safe to assert that a considerable part of our prosperity is attributable to the large loans we have made to foreign countries, enabling them to acquire whatever excess production

we can readily dispose of without in any way impairing our own standards.

Ways and Means

WHILE the above views apply to our foreign loan policy in general, they are particularly true as regards Germany.

With the going into effect of the Young plan, serious consideration will have to be given to ways and means of enabling Germany to discharge her obligations. While it is true that the schedule of payments has been arrived at after a careful analysis of Germany's capacity, the same was true with respect to the annuities provided in the Dawes plan, the predecessor of the present agreement. The Dawes plan has admittedly been successful because of Germany's success to borrow.

Whether Germany would have been able to make all payments provided in the Dawes plan without resorting to borrowing, need not be discussed here. The fact remains that for every $1 paid out in reparations, Germany borrowed $1.84. Will the Young plan function successfully if no loans will be forthcoming? Bankers who are largely responsible for the setting up and adoption of the plan cannot afford to let it fail.

A Somewhat Safer Policy

BORROWING throughout the period during which the Dawes plan was in operation was relatively easy. Money rates were lower here than anywhere else in the world, our investing public had not as yet grown stock mad, safety of principal was placed ahead of possible enhancement in market quotations, and the liberal return on foreign bonds was tempting. Large amounts of German bonds were underwritten and offered in this market. The influx of American capital into Germany resulted in lower money rates in Germany, which in turn rendered it profitable for the Reich to re-acquire a considerable share of its own issues which had been placed abroad. Today, the situation has undergone a very radical change.

Liberal returns have lost their former significance. Not only is it difficult to place a good 6 per cent foreign bond at 70, but it seems that even a good 70 per cent foreign bond at 6 would not appeal. Such is, to a large extent, the frame of mind of a considerable portion of our investing public. However, those who have an interest in the successful functioning of the Young plan will, in all probability, devise a way whereby the interest in bonds and fixed income-bearing securities will be revived, and since we cannot conceive of a government or a political subdivision floating convertible bonds or obligations with stock purchase privileges, the re-establishment of a bona fide bond market would seem essential. It will perhaps prove difficult, but it could be achieved.

American investors in German bonds have, on the whole, fared rather well. To the end of 1928, the par value of German bonds publicly sold in the United States aggregated $1,245,950,000, of which $112,250,000, or more than 9 per cent, has already been repaid or refunded, exclusive of such amounts as have been retired through sinking fund operations. Based upon the price of issue, the total value of German bonds sold in the American market is $1,174,246,010, while on the basis of quotations on November 6, 1929, the value is $1,137,246,490, a decline of only 3.15 per cent. In other words, if American investors had purchased one $1,000 bond of every German loan offered for public subscription and if they had held the bonds continuously, not only would the return have been very liberal, but the principal would show a shrinkage of only slightly over three per cent—a record much more satisfactory than that shown by other divisions of the securities markets. If American investors had confined their purchase only to bonds of the German Government, to states and municipalities, their principal would, on the basis of quotations on November 6, show an appreciation of 1.34 per cent. While holding out little prospects for spectacular profits, the purchase of a sound bond is, in the final analysis, a distinctly re-assuring and a somewhat safer policy to pursue.

Executives Who Have Found Themselves

The great promise, and the safest assurance, of increasing success in any business lies in *sound organization*—which is simply that balance of control which harmonizes the work of executives who have found themselves.

In knowing the principal and necessary functions of their business, and each with that specific knowledge and personal aptitude which makes him supremely fit, such men find, in their organized work together, not only them selves but an ever-growing success.

Through its wise and experienced counsel, and in the application of its tried practices in the building of *sound organizations,* Modern Accountancy contributes one of its most valuable services to modern business. *Organization* is both the cause and the result of executives who have found themselves.

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100 BROADWAY
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57TH STREET AND FIFTH AVENUE

Don't Guess—Analyze

(*Continued from page* 560)

banking laws and practices now in effect in our various states we have determined that the loanable balance on any account will vary in different banks from 70 per cent or less to 80 per cent. We take 75 per cent as an average. Should a 25 per cent reserve be higher than you are carrying, it has little effect on the chart, but is in your favor.

Practically every account has some float. These out-of-town items are easily noted at the time deposits are taken in. Your nearest Federal reserve bank will furnish you with a time schedule showing the number of days necessary to clear items on principal cities. You will add one or two days, depending on your geographical location.

If your bank is an average or small size institution you can pick out at sight those accounts which may be causing you a loss on float. When you have picked out certain ones, notice the deposit tickets. For example, let us say, J. M. Jones deposits three checks as follows:

1	(3) Three-day item.........	$40
1	(4) Four-day item..........	110
1	(2) Two-day item...........	90
	9	$240

Dividing the total days by the number of items deposited, we find the average daily float, which in this case is three days. You then mark on the back of the deposit ticket

$$\$240 \times 3 = \$720$$

In other words, there is $720 out on float for one day on Mr. Jones' account. These amounts of float may be jotted in pencil on the ledger sheet and the average daily total at the end of the month taken from the ledger balance.

Only Two Things to Sell

WHEN this is done, count Mr. Jones' total number of checks for the month and the one-minute chart will tell you at once how much you are making or losing on the account. With this table before you it is possible to analyze as high as fifty accounts in thirty minutes, and incidentally you may use it to show your customer clearly just how you figure his account is a loss to you. You have only two things to sell—credit and service. Why should you lose on service? You will find it profitable to analyze large accounts also. They may surprise you.

After an account is analyzed and found unprofitable there is some question as to which is the best remedy to apply. Most banks are agreed that some sort of flat charge is preferable on small accounts. In dealing with larger ones it is necessary to ask them to increase their average balance. However, in the states of New York, Minnesota, Wisconsin, Oregon and Georgia schedules of charges have been worked out and applied to all sizes. The schedules are reported to have been satisfactorily received by the public and the following outline will give an idea of the charges made:

On all out-of-town items—
- (1) 3 cents per item of $25 or less.
- (2) On items from $25 to $100, 5 cents to 7 cents.
- (3) Items from $100 to $200, from 7 cents to 10 cents.
- (4) On all checks exceeding $200 the charges are:
  - (a) 25 cents per $1,000, when collection may be made in two days.
  - (b) From 35 cents to 40 cents per $1,000 on 3-day collections.
  - (c) From 50 cents to 60 cents per $1,000 on 4-day collections.
  - (d) From 60 cents to 65 cents per $1,000 on 5-day collections.
- (5) All items requiring a longer period an average of 12 cents per day is charged per $1,000.

All such charges, of course, are discretionary, and these figures are presented as a suggestive basis on which to work. Such charges offer an effective method of increasing earnings—sometimes to a surprising extent. Certain cities ranging from 5,000 to 50,000 population, are, through these schedules, collecting from 5½ per cent to 10 per cent annually of their banks' capital.

At Fabulous Prices

AFTER all, little charges are the ones that count and once begun are easily collected. California has been unusually

progressive in collecting fees for out-of-town checks. This is true even of the smaller banks and no loss of business is reported. Colorado requires customers to keep a balance sufficiently large to cover loss on too many items, too small balance, or too much float. Connecticut follows the same rule generally.

Under no condition allow yourself to labor under the impression that analysis of accounts has so many applications that it cannot be understood or coped with easily. The subject is by no means new. It is only new in America where we have never felt the pinch of necessity. Success is intoxicating, even to bankers. Lean years are the antidote. Periods of wild speculation with accompanying perilous possibilities have always tended to create a tightening in bank management.

Two hundred years ago English and European depositories suddenly felt heavy withdrawals of deposits. This was due to an era of speculation, similar to ours today, introduced by John Law and the Duke of Orleans. These gentlemen promoted "The South Sea" and "Mississippi" bubbles. Bank deposits became centered in the large cities as the public bought and sold stock at fabulous prices. European economic history tells us that when these bubbles burst many banks went with them and those that remained immediately levied taxes on all small and unprofitable accounts and resorted to all other prudent methods available to increase profits. Try cashing a check or draft in Paris. There will be a deduction for clearing unless you are a very unusual personage, even though it be drawn on another native bank.

Cleveland Is Chosen

THE Fifty-Sixth Annual Convention of the American Bankers Association in 1930 will be held in Cleveland, Ohio. The dates of the meeting will be September 29 and 30, October 1 and 2.

The Annual Spring Meeting of the Executive Council of the Association will be held at the Chamberlin-Vanderbilt Hotel at Old Point Comfort, Virginia, from May 5 to 8.

Designations of these meeting places were made by the Administrative Committee of the Association at a session in New York on November 21, 1929, and were announced by President John G. Lonsdale, president of the Mercantile-Commerce Bank and Trust Company, of St. Louis.

Meeting in New York at the same time the Executive Committee of the State Bank Division of the Association the consensus of the committee was that one of the most constructive moves ever made by a national administration in behalf of sound business was presented by President Hoover's economic conferences then being held in Washington. Expressing this view, Dan V. Stephens, President of the Division and president of the Fremont State Bank, Fremont, Nebraska, said:

"Inter-relations among all lines of business make it inevitable that there should be widespread questioning in the public mind as to the effect of the collapse of quoted values in the stock market on general industry and trade. As in previous periods, undue apprehension could do real harm by creating an unwholesome psychological situation, but the fundamental qualities of our nation's economic life have not been altered by recent events, and it was the consensus of our committee that one of the most constructive moves ever made by a national administration in behalf of sound business activity is presented by the action of President Hoover in calling the nation's business leaders to take part in a series of economic conferences at Washington.

"Whatever happened to quoted values in the stock markets, the facts are unaltered that this nation's actual wealth is unaffected, that there is still as great a volume of basic production and trade required by our people in their daily lives and that our economic means for carrying on these functions are as sound and vigorous as at any time in our history. The President's Conferences are valuable in focusing public attention on these facts and we believe they will prove effective in obviating any public fears that may have been engendered."

Selecting Investments

With the steady growth of industry, there has come, through public financing, a plethora of security offerings, so numerous and varied that the investor's problem becomes one of careful selection.

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Essentials of a Liquid Loan Policy

(*Continued from page* 557)

will in part, at least, be required by him for financing the next year's crop, must be invested only in some operation that will liquidate itself before the crop season comes. The grain farmers' seasonal time deposit may be, for example, used to finance a fall and winter cattle feeding operation.

A Proper Balance

PUBLIC deposits create a serious investment problem. Dependent as they are upon legislative enactment that cannot be foreseen, upon changes in administration and other conditions than those affecting the normal commercial relation of a community, they must be subject to special consideration. To preserve a proper balance of liquidity in a bank's entire account, public funds can only safely be invested in sound bonds of high degree of marketability.

The investment of demand deposit funds other than those required for reserves must be predicated upon an analysis of the normal seasonal fluctuation of the demand deposit account. The very fact that there are seasonal fluctuations in demand deposits makes loaning for local enterprises difficult if liquidity is to be maintained. The same conditions that are responsible for reduction in deposit accounts create demands for local loans, and at the same time. Hence extreme care must be exercised in the loaning of seasonal demand deposits and local loans, because demanded in direct proportion to deposit reductions, must be made sparingly and only when unusually favorable.

The Cycle Changed

THE second condition that is absolutely essential for a proper loan policy is diversification. I well remember the academic arguments presented in behalf of the establishment of a central bank in the United States. One of the major functions claimed for it was the establishment of diversification possibility for the investment of funds. It is not long ago in our territory when a cattle loan, a grain loan, an agricultural loan was very highly regarded, and justly so, for in that day, such a loan was characterized by liquidity.

At a later date an investment in bonds was regarded as self-liquidating, and justly so, for we passed through a period when bonds were in great demand and premiums could be realized in liquidation. But the cycle changed, and the liquidation of a cattle loan or agricultural paper could be accomplished only by forcing the borrower to take a tremendous loss that he desired to overcome by carrying his livestock, making it necessary for the bank to carry the loan.

That bank whose whole investment in such paper, meritorious as it may have been when negotiated, suffered tremendously, liquidating when possible only by losing the good will of the borrower and in other cases, too frequently, impairing capital when liquidation revealed the insufficiency of security. The cycle changed again, and that bank whose whole investment was in bonds found liquidation impossible without tremendous loss.

Rare Communities

IT is true, of course, that many losses are suffered by banks because of carelessly made individual loans. Such losses have not, however, been responsible for the tragedies that have stricken our banking system. The real cause of crises is to be found in the fact that many banks invested all of their funds in loans the liquidation of which was dependent upon the status of a single type of enterprise, all of the property involved in which depreciated at the same time.

A certain reserve center bank had much of its investment in German bonds, all of which depreciated in value at the same time, and it failed. In our states, many banks had no investment aside from local agricultural loans, and had to suffer a depreciation in every line when agricultural deflation confronted us, and failed.

A bank that fails to diversify its loans is just as subject to criticism as is the

insurance company that centralizes its risks within the confines of a narrow boundary, within all of which loss may arise at one time. I appreciate the difficulty of finding diversification for loans, especially in an agricultural community. In those rare communities where mines, oil wells, industrial plants and agriculture are all found within restricted borders, diversification can be secured without resorting to foreign loans. This is not possible, however, except in very limited areas in our three states.

Wherein is the Fault?

I REALIZE too, the temptation to recognize the misguided demand upon the party of community builders that all funds arising from a distinct community be invested in the projects of that community. There are also many bankers who have maintained the strong position of their banks in spite of the fact that they have confined their investment to local loans, but they are the exception, not the rule. It is undoubtedly true that in periods of normal conditions the development of a community may be retarded by the refusal of a banker to invest all of his bank's funds in the community from whence the funds came, and it certainly may be said that unusually rapid community development has come in normal times to those communities that were permitted to borrow all of the community bank funds. Unlimited community development by a bank must be abandoned in the interests of safety. The individual investing his own funds may find proper justification even in loss in pioneering with his funds. The banker who invests the funds of others can find no such justification. His first responsibility is safety. In centralization of investment there is danger.

The creation of a proper loan policy necessitates the creation of a competent creator, and I would be failing to take advantage of my opportunity if I failed to call attention again to that often mentioned and too infrequently exercised essential, active, interested, careful, participation in banks' affairs by a competent board of directors. No argument can be presented in opposition. The law requires it. Even the novice in business recognizes the necessity. Yet many country banks are operated from year to year with boards of directors but faintly cognizant of its activities.

Wherein is the fault? Do men, successful in their own individual enterprises, look lightly upon the self-assumed obligations of a trust? Do men who have taken oaths as directors unthinkingly expect a bank to be self-sustaining? Is compensation too insufficient to demand active attention? Whatever the cause, it is a serious indictment of American country banking, and is more than anything else responsible for the willingness of many people to accept chain and branch banking in lieu of that individual initiative and interest so essential a part of unit banking. That bank that does not demand the active services of its directors is not worthy of business. That director who accepts the responsibility of service upon a board and who fails to serve is false to a trust. The board of directors, familiar with the peculiarities of the institution it is assumed to serve and with the ramifications of the enterprises of the community, alone is responsible for proper loan policies.

Profit with Safety

IT is a reasonably easy task to announce certain things that must not be countenanced in a proper loan policy. Profit with safety being the incentive for the establishment of banking institutions, it must be conceded that too large an aggregate of small loans, that are not of such unusual character as to be self-liquidating is improper in a commercial bank. The small loan requiring as much intensive attention as a larger one, but the interest on which is insufficient to cover cost of negotiation and liquidation is an improper burden for a commercial bank. Such loans if made, should be made upon the extraordinary terms accepted in a majority of the states as legal. If made on terms legal in a commercial bank, the bank suffers a loss that some other business must overcome.

No loan of consequence, $500 being generally accepted as the limit, should be made without a financial statement of the maker. That maker who is unwilling to place before his bank in a permanent form an analysis of his ability to repay borrowed money is not entitled to a loan. The most important phase of the statement is the liability. All of us have

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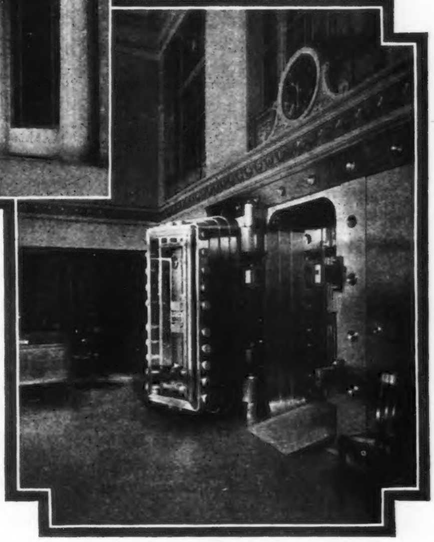

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seen statements showing a substantial net worth, the makers of which have been so burdened by liabilities that liquidity was impossible.

Loans should never be made to borrowers who do not possess moral responsibility, but that quality alone does not suffice for a proper liquid loan. No banker can afford to invest trust funds in loans dependent entirely upon the life, health and activity of the borrower.

From the Customer's Side

A LOAN which is dependent wholly or in major part upon the profits of enterprises, dependent in large measure upon conditions over which the borrower has little or no control and not supported by material assets, the management of which may be successfully undertaken by others, is not a proper loan. The earnings or profits of the future cannot be classed as liquid. They are subject to too many influences.

A capital loan, one dependent upon the sale of the material or property which the borrower must retain in his position to continue his operations, is not a proper loan for a commercial bank, city or country, and certainly by no stretch of the imagination can such a loan be classified as liquid. The capital loan is the special burden of that banker who considers investments from the customers' side of the counter. The applicant may earnestly desire to borrow, may be honest, and trustworthy, may even need the property to be purchased with the proceeds of the loan, but that banker who appraises the application from the customers' side of the counter rather than from the banker's side of the counter, forgets while so doing that the rights of depositors are greater than the desires or needs of borrowers.

The Business of Banking

ENDORSED paper, even though the endorser may be able to present a statement of unquestioned liquidity, possesses possibilities of absolute frigidity of loans, and should be very guardedly made, unless the endorser receives in the transaction some consideration that makes him feel more responsibility for the payment of the loan than mere friendship for the maker.

Loans, the payment of which is dependent upon increases in values of properties which are abnormal or unusual, loans made to convert into cash the paper profits of bank officers, directors or friends, are not only not liquid, but are absolutely improper.

The types of loans which should not be made and cannot be made if liquidity is desired, are almost innumerable. I have mentioned only those most frequently found in the portfolios of banks that have not succeeded. I have made no attempt to set up a properly balanced liquid bank statement, nor have I essayed to establish definite ratios of investment in certain loans, solely because banking under various conditions is not susceptible to permanent rules. The business of one bank is like that of another, just as the life of one man is like that of others. All men live, eat, drink, sleep and pass into eternity. The business of the bank in one community at a certain time differs from that of others at different times just as do the habits and customs of men differ. The business of banking is a business of thought, study, initiative, integrity and service, and given a board of directors, possessed of these qualities, directing officers capable of execution, mindful of the experiences of the past, a proper loan policy to insure liquidity will not be impossible or too difficult.

National Bank Resources

AGGREGATE resources of the 7,473 national banks on October 4, 1929, amounted to $27,924,310,000, according to a statement by Comptroller of the Currency, J. W. Pole. This figure represented an increase of $484,082,000 over the resources of the 7,536 reporting banks on June 20, 1929, but was $1,001,170,000 less than the resources of 7,676 banks on October 3, 1928.

Deposits on October 4 aggregated $21,901,997,000, which was an increase of $303,909,000 since the June call, but a decrease of $1,103,314,000 in the year.

Characteristics of French Securities

(Continued from page 584)

stock exchange lists bear the indication "*Nominatives*," that is, "Registered," and the amount paid up. The calls that are not yet made constitute a liability for the shareholders toward the company, and it is always the practice to show this liability as a special entry "shareholders" under the assets of all balance sheets published by companies.

It rests entirely with the board of directors to decide when the capital yet unpaid shall be called, and the approval of the shareholders in respect to such calls is not required. It may, however, happen that, in anticipation of an expansion of business, the directors may decide to issue further capital stock instead of calling the amount yet unpaid on the existing shares. In that case the authorization of the shareholders must be obtained in a special meeting. This procedure offers the following advantages: The company is in a better position to control its business, owing to the fact that the names of all successive shareholders are recorded in its books; it thereby enlarges the market for its shares by increasing the number of shares outstanding, and thus facilitating a wider distribution; if its business has been prosperous, and an important surplus accumulated, the new shares can be issued at a premium and the position of the company strengthened by this addition to surplus.

Registered shares, however, are not very much in favor with the general public in France. Their transfer involves formalities, certain delays and the payment of a higher transfer tax than on the purchase of bearer shares, though the loss is made good if they remain two years in the same hands, owing to the fact that the dividends are paid without any deduction for the annual "transmission" tax which is charged on bearer shares. The purchase of registered shares is, therefore, in the nature of a more or less permanent investment. Most of the companies call the full amount of the shares either immediately or within a few months of the issue in successive installments of generally 25 per cent of the nominal value. In a few cases, when all the capital is not called, the shareholders are, however, authorized to pay the capital in full at their convenience.

Immediately Negotiable

THOUGH the term *Actions d'Apport* is never found on a stock exchange list, it frequently occurs in discussions bearing on the capital structures of companies and in their articles of association. When a company is incorporated, a portion of its capital is frequently allocated to the payment of property, plants, and rights acquired at the outset from individual owners or other companies. Such payments may be made entirely in cash, or part in cash and part in shares of the newly created company, or entirely in shares. Such shares are called "*Actions d'Apport*." They are considered as fully paid and are not negotiable before two years after the date of incorporation of the company. They remain in the books of the company and are marked with a special stamp during all that period. This provision, however, does not apply to shares handed over in payment to companies whose property is acquired through absorption or merger, and which have been over two years in existence, such shares being immediately negotiable.

The terms *Actions Privilégiées* or *Actions de Priorité* correspond to preference shares entitled to receive dividends, cumulative or not, before any distribution is made to the common stock, or any other appropriation to surplus made under the articles of association. It is the constant practice that preference shares should always be "participating," that is, should be entitled to a distribution of profits after payment of the statutory interest to "common" and preference stock outstanding. They also take precedence in case of liquidation over the common shares, which are not entitled to any distribution of the net assets before the capital of the "preference" has been repaid. When all of the common and preference stock has been reimbursed, it is the practice to distribute any surplus left on an equal basis for all categories of shares alike.

Occasionally it is provided that the preference shares may be redeemed by means of annual drawings over a certain period, mostly at par, but

Forces Governing Price Movements *of* Securities

Financial conditions, up to the close of business on November 30th, 1929, are shown at a glance in a folder of graphs covering: *Call Money on the Stock Exchange Floor* (10 *years*); *Recent Call Money Over-the-Counter; Reserve Ratio* 12 *Federal Reserve Banks* (10 *years*); *Rediscount Rate N. Y. Federal Reserve Bank* (10 *years*); *Index of* 60 *Representative Bonds* (28 *years*); *Commercial Paper* (28 *years*); *Bradstreet's Commodity Index* (28 *years*); *Brokers' Loans Reported by New York City Banks; Brokers' Loans "Own Account"; Brokers' Loans "Out of Town Banks"; Brokers' Loans "For Others"; Daily Fluctuations* 40 *Bonds* (*Dow-Jones Index*); *Daily Fluctuations* 30 *Bonds* (*New York Tribune Index*); *Daily Fluctuations* 40 *Bonds* (*New York Times Index*).

Blank spaces have been left on each chart so that the records may be continued by the banker or individual, with data supplied by us.

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sometimes at a premium. In this case such of the preference shares as have been thus paid back are exchanged for "*Actions de Jouissance*," and from that time they receive only the super dividend to which they may be entitled under the terms of issue. The statutory interest of preference shares is generally higher than that of the common shares, but the super dividend is always the same. The preference shares have also the same voting powers as the common shares.

Conversion into common stock is an infrequent occurrence and would represent no advantage to the holders, since the preference shares are always participating in surplus earnings after payment of the statutory interest. It has occasionally been effected by companies with the agreement of preference shareholders when the rates of statutory interests were the same for both categories of shares and a succession of prosperous years with distribution of substantial super dividends have shown that priority privileges were superfluous.

On the whole, apart from precedence in respect to the annual interest and capital repayment in case of liquidation, preference shares do not substantially differ from common shares, and from an investment point of view are far from presenting the attractive features of American preferred shares. They have no special market, and are by no means in particular favor with investors. The reason is that it is quite unusual for any company to resort to the issue of preference shares as a regular method of financing its requirements or modifying its capital structure according to a general policy over a number of years.

Under Pressure

IN a few instances it has happened that French companies have simultaneously issued common and preference shares at the time of their incorporation, the common stock being used to remunerate studies made and cooperation in the preliminary work of organization, or to pay for some property acquired from another company or private individual, while the preference shares are offered for subscription in cash to investors. In other instances, the issue of preference shares occurs when a company would, in view of a rather uncertain outlook, experience some difficulty to obtain additional capital through an issue of bonds at a reasonable price.

The new privilege shares are then offered to the holders of common stock, who are thus placed in the position to increase their investments in the concern, with additional advantages in respect to dividends and safety. But in many cases the issue of preference shares is resorted to only under the pressure of financial embarrassments when a company is compelled to reorganize. The issuance of preference shares then serves to provide the means to satisfy the claims of bondholders and other creditors, or to reconstitute the working capital depleted by previous losses.

In that case the capital stock is reduced at the expense of the old shares and immediately augmented again by the issue of preference shares offered for subscription to the existing shareholders. It should not be inferred, however, that the simultaneous existence of common and preferred shares necessarily implies a sort of automatic distrust and justifies elimination as investments for a good many companies which at some time had to resort to the issuance of preference shares and have subsequently successfully overcome their embarrassments and are now strong concerns with excellent prospects. In that case the privilege features fade into the background, and what difference in prices the stock exchange may reveal will correspond approximately to the differential in the rate of the statutory interest in favor of preference shares and reflect marketing possibilities depending upon the respective number of shares of both categories in circulation.

This is the first of a series of two articles by M. d'Algay. The second will appear in the January JOURNAL.

Europe After the Stock Market Crash

(*Continued from page* 575)

is over. If the break had not soon occurred, the effects of continued credit stringency might have been so serious as to cause the imposition of embargoes on the export of gold from Europe. This would have undone much of the work of restoring the gold standard. The result of such a step would have reacted seriously on the world at large.

Fortunately, European currencies met successfully the test of these extraordinary conditions, and there can no longer be doubt as to their soundness.

It is also fortunate that economic conditions in practically all European countries continued to improve during the past year in the face of this sharp curtailment of the flow of long-term and short-term capital from the United States.

Exceptional Harvests

THE economic outlook for Europe as a whole is, therefore, rather bright. If the Continent has been able to forge ahead in the face of the adverse conditions just described, how much faster should it go with these factors eliminated and with the stimulus to economic activity which the adoption of the Young plan should provide.

Among the conditions that favor the further economic advancement of Europe is the restoration of agricultural production to pre-war levels in practically all of the countries except Russia. The yields of some crops are below prewar results but the yield of other crops is higher. This year the harvests have been exceptional, which is most fortunate for Europe, since the combined American and Canadian harvests are below normal. Europe is thus relieved of covering its food requirements at high prices.

European agriculture has made a remarkable recovery since the conclusion of the war, and particularly in recent years. From an examination of data recently compiled it would appear that most European countries are producing more grain, potatoes and sugar than in the pre-war period. The herds of cattle, sheep and hogs have been largely, if not wholly, restored.

Aroused Some Envy

MORE remarkable has been the increase in the production of coal, pig iron and steel, which products in the case of most countries are excellent indices of progress. Great Britain is the only laggard, her production of these commodities still being below the 1913 level. But Germany is mining far more coal and lignite and is producing far more pig iron and steel, if comparisons are based on the present area of the country. France has increased her output of coal, iron ore, pig iron, steel and finished products of iron and steel. The increases for Belgium and Luxembourg are quite remarkable. Substantial increases are shown also for Spain and Italy.

Europe is fully aware that the world has entered upon the electrical phase of the "industrial revolution," and that cheap power freely applied to industrial processes is requisite to success in manufacture in this modern era.

The remarkable economic progress of the United States has deeply impressed the people of Europe. It has aroused some envy, but it has also led many European industrialists to adopt American industrial practices. There is great interest in what Europeans call "rationalization," a term used comprehensively to cover mass production, simplification of standards, scientific management and similar advancements.

The World's Best Market

EUROPE is anxious to make more rapid progress. She is not satisfied with the gains that have been made, especially when she contrasts her progress with that of the United States. The Old World has been so long accustomed to leadership that it will not be content with its present position. This fact accounts for the campaign for a United States of Europe, by which is really meant a European economic union. It is doubtful whether the statesmen or captains of industry in Europe really believe that such a union can be formed but they probably feel that efforts in that direction will result at least in a European tariff truce.

In summing up, it might be said that

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Europe as a whole has continued to make excellent progress and that conditions are propitious for still greater progress in the immediate future. The economic map of Europe has changed. While Germany has resumed her pre-war position as the leading industrial nation on the Continent, she will have keener competition from nations such as Sweden, France, Italy, Belgium and Czechoslovakia, some of whose industries have attained a new significance in the post-war period. At the present time the industries of England, with few exceptions, have not made the gains that might be expected of a nation which was for so long the premier industrial nation of the world.

It must be remembered, however, that several of the key industries such as coal mining, ship building, ship operating and textile manufacturing have been seriously affected by fundamental economic changes, and that it would take any country a long time to adjust its economic system to such radical changes, and that it would be a mistake, therefore, to assume that, since her economic recovery has been slower than that of a number of European countries, Great Britain is not a force to be reckoned with. Great Britain has great resources of capital, mechanical skill, technical knowledge and human energy, and once certain fundamental problems have been corrected, that country will make new progress.

Prosperity in Europe is desirable for the world at large, for that continent has played and will continue to play an important part in international economic relations. Europe as a whole is the world's best market. Under ordinary conditions it is an important source of capital for the development of the newer areas. It has made countless contributions to the development of new processes of manufacture. Its peoples have colonized and developed much of the civilized world. Its literature, its art, its music, its culture are priceless possessions of all peoples.

Per Item Charges

(Continued from page 592)

try as a whole 59 per cent of the bankers reported that the practice was governed by clearinghouse rule. In the West, this figure ran as high as 78.4 per cent; while in only one section of the country, the eastern states, did independent policy of the banks dominate. Here, 60.6 per cent reported that per item charges were governed by the individual banks.

There was some discussion as to the wisdom of permitting an arbitrary rule to be made by the clearinghouse which takes no account of the individual efficiency of the member banks. It would seem, however, that this is distinctly a subject for clearinghouse action, where possible, inasmuch as this tends to eliminate wasteful competition and promiscuous shifting of bank accounts. Further, it may be considered to reward the efficient bank with a premium if its costs are lower than the average.

There was considerable diversity of opinion as to whether the imposition of per item charges eliminated the necessity for a detailed analysis of accounts; 56 per cent of the banks replying to this question answered in the negative, while the remaining 44 per cent held that the accurate calculation and installation of per item charges should tend to relieve the bank from detailed analysis of accounts. Here, again, there was a wide variation in reports from different sections of the country; answers from the West and East included 81 per cent and 63.7 per cent, respectively, replying in the negative. These percentages for the Middle West and South were 53 per cent and 43.5 per cent, respectively. A great many bankers frankly confessed that they were unable to answer this question intelligently at this time because of a lack of experience upon which to make a correct statement of their position. Of the questionnaires returned 81 per cent left this question un-

answered. One bank which replied in the affirmative stated: "Eliminates detailed analysis on many accounts and in fact furnishes an analysis of a kind on some accounts, thereby bringing to attention accounts that otherwise might be overlooked, for detailed analysis purposes."

Many are Seeking a Method

THE questionnaire revealed an overwhelming majority in favor of a uniform system to be adopted by all banks throughout the country, which would automatically and fairly compensate them for the expense involved in handling items—both city and out-of-town. Of those replying to this question 95.5 per cent voted for a uniform system. Here again many did not feel qualified to answer the question, the number of non-replies running as high as one out of six. This reflects the wide lack of knowledge on this important question and suggests the need for educational work to stimulate interest in the analysis of costs and their equitable distribution.

Some bankers took the view that a uniform system would require that every bank should make exactly the same per item charge regardless of its individual costs. It is not intended that such a standard system should prescribe the exact amount to be charged. The important thing is to develop a standard system of computing costs, with the actual amount of the per item charge to be left to the local clearinghouse association or the individual bank, where no clearinghouse exists.

A great deal of valuable material appeared in the general discussions which accompanied many of the replies. Banks are giving more and more thought to the subject of cost analysis and many are seeking a method which will quickly and accurately help them to arrive at a correct approximation of the expense of handling an account. One bank said:

"We have just completed an analysis of our checking accounts, showing 49 per cent in number with balances under $50 and this 49 per cent totalling 2½ per cent of the volume of our deposits. As near as we can tell, between one-fourth and one-third of our bookkeeping work and tellers' work is required for this 49 per cent." Another said: "By grouping accounts according to size and relative activity, we find that 70 per cent of our accounts fall within certain definite classifications, the remaining 30 per cent presenting each its own individual problem. We feel that we can afford to analyze individually each of the 30 per cent with the view of improvement or elimination, but the problem of the 70 per cent is yet to be solved. The $1 per month service charge is not the answer to the small account. It should be charged on a service rendered basis. We are studying this phase of the matter."

There appears to be considerable controversy between the advocates of per item charges and other service charges, and those who believe in the maintenance of a compensating balance sufficient to cover the expense of han-

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dling the account. Apparently conditions differ in various parts of the country, for some bankers assert quite positively that their customers will gladly pay a reasonable service charge, but simply cannot be made to increase their balances to a profitable point. Others state that arguing with customers over the justice of charges results in a loss of good will and they have found it far more satisfactory to persuade customers to increase their balances. Many have generalized rather indefinitely on this matter, but, reading between the lines, it seems probable that small checking accounts are more easily persuaded to increase their balances, while especially active business accounts, chain stores, for example—will yield more readily to the imposition of a charge for handling accounts.

A few replies stressed the importance of providing an accurate, easy method of computing costs. As one bank put it, "Banks have long been soliciting unprofitable business by their advertising and have educated the public to believe that such business is desired. Before any drastic changes can be made, we must be able to show cost figures clearly; they must be reasonable, and depositors must be made to see, by education, that in order to have good sound banks, unprofitable business must be kept at a minimum." Another banker suggested that if a campaign is carried on to make each account pay its own way, it may result in a demand for the payment of interest by some good customers who are not now receiving it.

The institution of per item charges is a matter of requiring prompt consideration and action by banks if profits are to keep pace with costs. Many banks have hesitated to apply such charges because of a lack of cooperation among neighboring banks. "A system insuring fair compensation for the handling of items," said the cashier of a California bank, "would be very desirable provided it can be uniformly enforced. It is the writer's opinion, however, that in most cities there are always one or more banks unwilling to cooperate, thinking they can gain business by taking advantage of their competitors." An eastern banker, advocating cooperation in this matter, referred to the ever present possibility that the other bank "down the street will kick over the traces." Cooperation among banks in a matter of this kind insures a logical and fair method of fixing the charges, removes the whole subject from competition, and helps to answer the serious problem of diminishing profits.

Canadian Trust Companies

There are now sixty-two trust companies operating in Canada, with total funds of $1,680,000,000. Their business is essentially that of trust and agency, for they are not permitted to exercise any commercial banking functions as are trust companies in the United States.

Bankers Cooperate

BANKING cooperation in the program of President Hoover, for preserving the continuity of business, was pledged by President John G. Lonsdale, of the American Bankers Association, in accepting the invitation to take part in the conference of business and financial leaders held in Washington on Dec. 5.

The following were named by Mr. Lonsdale to attend the conference with him as representative of the bankers of the country: Albert H. Wiggin, chairman of the board, Chase National Bank, New York; Arthur Reynolds, chairman of the board, Continental Illinois Bank and Trust Company, Chicago; John T. Scott, president, First National Bank, Houston, Tex., and Herbert Fleishhacker, president, Anglo and London-Paris National Bank, San Francisco.

"In advance of the conference," Mr. Lonsdale said, "I can state that there will be no doubt about President Hoover having the whole-hearted support of the bankers of America in his efforts to preserve the continuity of business. A number of bankers already have indicated to me their desire to serve in whatever prudent way they can to keep business operating on a sound keel. Believing in the soundness of underlying economic factors at the present time, bankers feel that a movement such as President Hoover is undertaking to coordinate the various lines of activity throughout the nation will have the desired beneficial effect and be the means of keeping the tide of business flowing.

"With bankers ready to cooperate to the best of their ability, it remains only for the conference to work out a definite plan of business and banking coordination."

Condition of Business

(*Continued from page* 610)

tions, etc.), and loans by "others," or non-banking sources. The drastic liquidation, amounting to 48 per cent in the space of eight weeks and erasing the credit growth of over two years, is also shown.

A further remarkable feature of this diagram (page 610) is the change that took place in October and November in the relation of these three sources of credit to each other. Loans for "others," which represent funds placed direct instead of being left in the banks in the form of deposits, on which the legal reserves would have to be carried, and then loaned by the banks to brokers, were drawn out to the extent of $2,000,000,000 when the market broke and when some of these funds were wanted for buying stocks. Loans for out-of-town banks were also withdrawn to the extent of over $1,000,000,000.

It is doubtful whether the public or even all bankers appreciate the strain that these sudden withdrawals place on the New York City banks, and the necessity for them to step into the breach and take over the loans that are called, whether they are desirous of expanding

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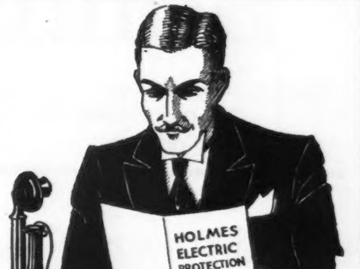

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their own loans or not. Executives of the New York banks have reason to feel proud of the manner in which they prevented a disturbance on this occasion by supplying funds as required and preserving the integrity of our banking and credit system. The Federal reserve banks also assisted greatly by their purchases of acceptances and government securities, and by their lowering of rates on discounts and bills. The bankers' group performed a valuable service by organizing a huge pool to check the rapidity of the decline and to preserve orderly markets by supplying bids on issues in which there was no buying power to meet the selling offers.

Easing of Money Rates

CORRESPONDING with the swiftness of the liquidation of banking credit there has been an almost unprecedented drop in interest rates. Call loans, which early in the year went up to 20 per cent, and during the summer and fall averaged around 9 per cent, have dropped to 4½ per cent for renewals, with an unofficial rate on transactions outside of the exchange as low as 3 per cent. Time money that could hardly be borrowed two months ago at 9¼ per cent can now be had at 4½ per cent. Bankers' acceptances were selling on a 5¼ per cent basis and have been dropped by ⅛s until they are down to a 3¾ basis. Commercial paper, which commanded 6¼ per cent, is back to 5¼.

In this review we have repeatedly called attention to the abnormally high level of interest rates as clearly signifying the existence of a state of credit inflation, opinion to the contrary notwithstanding. Events recently have not only proved that interest rates are still a reliable thermometer to the state of fever that may develop in a patient, but to the elimination of the fevered condition at this time and the restoration of a normal and healthy state.

As suggested, low interest rates will henceforth be a favorable factor in that they will be a stimulus to new enterprise, and will bring back the market for bond offerings, including foreign bonds that supply the foreign credits with which people abroad pay for their huge purchases of American raw materials and manufactured goods. In time, low interest rates will provide funds for investment in real estate bonds and mortgages, and into real estate holdings, and thus revive the lagging building industry.

Convalescent Stock Market

IN the stock market particularly, the air has been cleared alike of the fever of speculation and of fear. When the story of the 1929 market collapse is written, a great deal of credit should be given to the New York Stock Exchange as an organization and to the leading brokerage firms individually for the part they played in handling the tremendous volume of liquidation.

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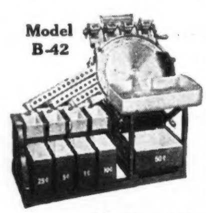

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holidays and shortened sessions has not only allowed their office facilities and their personnel to survive the deluge, but it has provided time for a quieting down of nerves on the part of the public, for a reflection as to true values, for a recovery of confidence in the business of the country. After the hectic days of last month it is a very good change to have brokers, employees and customers sitting around quiet offices and convalescing back to the normal mental state.

This does not mean that further breaks in individual stocks are not to be expected, for it is a well-known fact that there is a large "short" interest still outstanding for the account of the speculative operators who made fortunes by being on top of the market rather than underneath it. Perhaps the public will in the future be more wary about following their gratuitous advice to buy stocks when the corresponding advice as to the proper time to sell was not forthcoming. Nevertheless, these short interests may be expected to launch attacks upon individual issues, while the numerous "pools" that previously could be depended upon to support these issues are all understood to be in pretty lame shape.

Cash buying, however, is reported to have been enormous. Large commission houses say that they have recently been receiving orders from literally hundreds of people, many of whom they have never heard of before, asking them to purchase odd lots of stock and paying cash in advance. Volume of transfers out of brokers' names to individuals have been record-breaking. All of this buying for cash helps to liquidate brokerage borrowings still further and to strengthen the technical position of the market.

Bond Market Reviving

ON several days during the stock break the quotations for bonds were also under pressure because of sales by people who were forced to sell bonds to protect margin accounts, or who preferred to sell bonds and switch into stocks at the bargain prices. Opinion seems to be agreed that seasoned issues will not be available any cheaper for a long time to come, and that a steady advance is likely under the stimulus of normal money rates. With the curtailment of new offerings for more than a year, at the same time that many large issues were retired in their entirety by call or in part by sinking fund purchases and serial maturities, it would not be surprising if a scarcity of good bonds developed as soon as buying power gets back to normal.

New issues during November were very limited, some important offerings being postponed because of unsettled conditions.

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Small Bank's Chance

(*Continued from page* 580)

branch banking, it must be borne very strongly in mind that the degree of success is dependent entirely upon the degree with which the three factors of the "Triangle of Management" are injected into the situation.

It must also be borne in mind that a sound policy, regardless of the form of the banking system, must be one which works to the benefit of all of those interested in the welfare of banking institutions. It must be sound from the point of view of the depositor, of the stockholder, of the personnel and of the borrowing customer.

If these policies are sound, from the point of view of all concerned, and if we have an organization which can effectively apply these policies, then we have sound bank management—the depositor is protected, the stockholder receives a commensurate return on his investment, the personnel can better itself and through an extension of wise credits the community is served. So that, regardless of the form of banking, the success is entirely dependent upon the effectiveness of management, using the term "management" in its broadest sense.

How Will These Changes Affect the Customer?

(*Continued from page* 596)

an evolutionary movement. It seems wise, however, to let these various developments take place with as few restraints as possible compatible with the best interests of the depositors and communities served and with the assurance of profits for the bankers.

This may seem vague but it really is not. The laws against branch banking should be relaxed or removed entirely and in their stead the various banking laws should be remodeled to insure careful supervision of whatever type of banking development is permitted to evolve. A relaxation as to the form of banking should not and need not involve a relaxation as to control and supervision. No form should be permitted to grow and become powerful that cannot be controlled. Within these limits there appears to be no important reason why the evolution of banking should not be left free to follow either the unit or the branch banking system. The selfish interests of both the banker and the depositor, left free to function within the limits of reasonably intelligent banking laws, should evolve a system or group of systems mutually beneficial to banker and depositor.

New Management Booklet

THE Commission on Banking Practices and Clearinghouse Functions of the American Bankers Association has issued booklet, No. 4 of its commercial bank management series, entitled "Unprofitable Practices and the Remedy—Per Item and Float Charges." The booklet is not a theoretical treatise but presents the results of nation-wide studies that are faithful pictures of actual facts derived from the practical experience of successful banking institutions. There is included a detailed plan for installing float charges and a specimen schedule of service charges.

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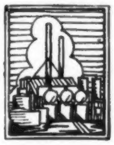

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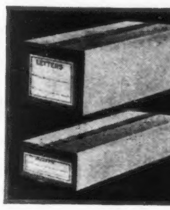

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WHAT DO YOU THINK?

***Being a more or less personal talk between the* EDITOR *and the* READER**

The Management Conference

WHY is it that the Bank Management Conference has made such a deep impression on the minds of country bankers?

"Because there is money in them for the conferees" is not quite a satisfactory answer.

"Because the money-making ideas that can be gained from such meetings are of immediate application," accurate though it may be, does not tell the whole story, for there is no conference in recent years dealing with any branch of banking which did not have in some degree the same possibilities for profit.

The big element in the appeal of the Bank Management Conference is that the first conference, held by the American Bankers Association in Chicago, was pitched in the right key.

There is nothing of the spirit of the old

fashioned lyceum in it; no forensic swank, or cautious presentation of what a conferee may have to tell his fellows. It is all down to the open frank, conversational basis, dealing little with the abstract, and most with the hard facts of the country banker's day-by-day routine—familiar things in familiar language such as are talked when a few familiars meet together.

Just Listening Won't Do

THAT was the character of the splendid Tri-State Conference held last month in Minneapolis, a three-session affair that had a good swing and in which the interest was sustained to the end. And its value lay not alone in the practical information that it yielded, but in the stimulus and confidence to put new ideas into practice that it inspired. The confidence-inspiring current running through all the discussion is reflected in the following paragraphs:

"You must not only sit here today and listen, but you must return to your respective banks with a determination not only to operate a better bank and do your part in conserving and protecting the banking profession, but by such acts to assist in the restoration of the bank in the community to the position to which it is deserving and entitled," said J. R. Chappel, Vice-President, Merchants Bank, Winona, Minn. "Bankers used to be known as hard-boiled and inhuman. Losses would be less if they possessed these qualities to a higher degree. Most failures are caused by a reluctant or weak-kneed banker being talked or wheedled out of a loan by a poor risk who in reality was not entitled to the credit extended."

Cost of a Tractor

"TO make loans to merchants safe and desirable," said T. N. Hayter, Cashier, First National Bank & Trust Co., Vermillion, S. D., "we should encourage the farm board to so stabilize the staple farm products so that within reasonable limits the farmer can calculate in terms of his product his obligations assumed to produce that product.

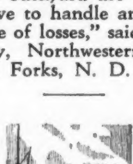
"As an illustration, a farmer bought from one of our local merchants a tractor for $1,250 on April 1, 1928. At that time Durum wheat was worth $1.25 per bushel, so that 1,000 bushels would have paid for his tractor. Not having the cash, he gave his note for six months, due October 1. Within that time, he plowed, harrowed, seeded, harvested, threshed and marketed his crop of Durum wheat.

"On October 1, the day that his note was due, he came to town to sell his product and pay his note. And what did he find? He found that instead of Durum wheat being worth $1.25 per bushel, as it was the day he contracted his indebtedness, it was only worth 75 cents per bushel, and that instead of being able to retire his indebtedness with one thousand bushels of his product, it required 1,700 bushels, or, in terms of his product, his indebtedness had been increased 70 per cent in six months and in terms of profit it had been multiplied by 10,000, as there is no profit in producing Durum wheat at 75 cents per bushel."

Charged Off Land

"SO we took this piece of land, and charged it off, and we took a loss ourselves," said Charles Hyde of the American Exchange Bank, Pierre, S. D. "And here, within the last year, it developed that the men who owned the land on each side of this piece of land were prosperous, and that they were looking to this piece of land to increase their farms with. They both wanted it. They bid against each other. One of these fellows bought it and was mighty glad to get it. We had a profit there of about a thousand dollars."

"A loan applicant coming from outside a bank's natural territory and his own natural source of credit should be scrutinized with special care or, to put it bluntly, looked upon with suspicion. Loans in the other fellow's backyard are hard to watch, more expensive to handle and have been a fruitful source of losses," said M. C. Bacheller, Secretary, Northwestern Trust Company, Grand Forks, N. D.



Who Gets the Account?

"THIS man," said Mr. Hubberstad of the First National Bank of Rushford, Minn., "was traveling around the country, and I asked him, when he went to a town or moved to a town. where he usually took his bank balance. And he said, 'I will tell you what I do. I hang around the restaurants and garages for a few days, and listen to remarks made about the bankers. When I hear about one banker that is an awfully good fellow, and a jolly good fellow, that he never turns anybody down, that he is always pleasant, and has a good word to say to everybody, and is easy-going, and so on, and all the young fellows in town carry their accounts at that bank, and this and that; and then I hear the story of another fellow, of whom they say, 'Well, you don't want to go there, because he is hard-boiled; he wants a financial statement, and he wants to know all about you; he is pretty much of a grouch.' And he says, 'Then, having heard the remarks on both sides, I take my money to the grouch's bank, the man that has got a lot of backbone.' "

Fifteen Per Cent on Bank's Capital

"I WONDER if you men always get the real, true significance of figures that are given in a paper," observed President Putnam of the Minnesota Bankers Association. "When we think of the First National Bank of Thief River Falls having increased its miscellaneous service charges from $500 in 1922 up to $7,500 in 1929, or 15 per cent on their capital of $50,000, it is certainly a very remarkable record, and one that I think any one of you gentlemen would be proud to have in your own bank. That is a splendid record, 15 per cent on their capital, in miscellaneous service charges alone; that is a wonderful record."

So runs the bank management conference —told as one man to another, plainly and frankly.

Reserve Requirements

A BANK official reports that he finds a great many national banks in calculating their reserve requirements are including an amount of their outstanding cashier checks, certified checks and dividend checks with their other demand deposits in reporting their net demand deposits to the Federal reserve banks for reserve purposes.

As long, he says, as the balances due from other banks are greater than the balances due to other banks, plus cashier checks, etc., no amounts need be reported for reserve purposes.

As a great many country banks do not have any balances due to other banks, they have overlooked the fact that the balances they have due from other banks may be properly applied against their own outstanding cashier checks.